IPCC – November 2017

PAPER 1: ACCOUNTANCY

Test Code: PRI 1

Branch (MULTIPLE) Date : 02.10.2017

(100 Marks)

Note: ***Question No.1 is compulsory. Candidates are required to answer any five questions from the remaining six questions.***

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Question 1

a. Cash flow statement consists of:(a) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (b) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value. **(1 mark)**

Cash flows are inflows (i.e. receipts) and outflows (i.e. payments) of cash and cash equivalents. Any transaction, which does not result in cash flow, should not be reported in the cash flow statement. Movements within cash or cash equivalents are not cash flows because they do not change cash as defined by AS 3 "Cash Flow Statements" which is sum of cash, bank and cash equivalents. **(1 mark)**

In the given case, due to increase in rate of foreign exchange by 75 paise, there is increase (change) in bank balance. This increase of ` 18,750 (25,000 x 0.75) is not a cash flow because neither there is any cash inflow nor there is any cash outflow. Therefore, this change in bank balance amounting ` 18,750 need not be disclosed in Cash Flow Statement of Ruby exports. **(2 marks)**

The net increase/decrease in Cash/Cash equivalents in the Cash Flow Statements are stated exclusive of exchange gains and losses. The resultant difference between Cash and Cash Equivalents as per the Cash flow statement and that recognized in the balance sheet is reconciled in the note on cash flow statements**. (1 mark)**

b. As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.
In this case, the cost of inventory is ` 5 lakhs. The net realizable value is ` 4.95 lakhs (` 5.5 lakhs less cost to make the sale @ 10% of ` 5.5 lakhs). So, the closing stock should be valued at ` 4.95 lakhs. **(5 marks)**

c. As per para 7 of AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- separate proposals have been submitted for each asset;
- each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- the costs and revenues of each asset can be identified. **(2 marks)**

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one document of contract. Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS -7. **(3 marks)**

d. As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are 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. **(2 marks)**

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ` 30,00,000 (` 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales. **(3 marks)**

Question2

In the Books of Kanak Ltd.

	Particulars		Dr. Amount ₹	Cr. Amount ₹
01.04.2016				
	Equity share capital A/c	Dr.	45,00,000	
	To Equity share capital A/c			45,00,000
	(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)			
	Equity share capital A/c	Dr.	22,50,000	
	To Capital reduction A/c			22,50,000
	(Being reduction of Equity capital by 50%)			
	Capital reduction A/c	Dr.	40,500	
	To Bank A/c			40,500
	(Being payment in cash of 10% of arrear of preference dividend)			
	Bank A/c (2,400 x 98)	Dr.	2,35,200	
	To Own debentures A/c (2,400 x 96)			2,30,400
	To Capital reduction A/c			4,800
	(Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c)			
	12% Debentures A/c	Dr.	3,60,000	
	To Own debentures A/c			3,45,600
	To Capital reduction A/c			14,400
	(Being profit on cancellation of own debentures transferred to capital reduction A/c)			
	12% Debentures A/c	Dr.	8,40,000	
	Capital reduction A/c	Dr.	60,000	
	To Machinery A/c			9,00,000
	(Being machinery taken up by debenture holders for ₹ 8,40,000)			
	Trade payables A/c	Dr.	1,95,000	
	Capital reduction A/c (balancing figure)	Dr.	87,000	
	To Trade receivables A/c			1,83,000
	To Inventory A/c			99,000
	(Being assets and liabilities revalued)			

	Capital reduction A/c	Dr.	12,99,000	
	To Goodwill A/c			60,000
	To Discount on debentures A/c			6,000
	To Profit and Loss A/c			12,33,000
	(Being the above assets written off)			
	Capital reduction A/c	Dr.	45,000	
	To Bank A/c			45,000
	(Being penalty paid for avoidance of capital commitments)			
	Capital reduction A/c	Dr.	7,37,700	
	To Capital reserve A/c			7,37,700
	(Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)			
02.04.2016				
	Business Purchase A/c	Dr.	39,60,000	
	To Liquidators of Ronak Ltd.			39,60,000
	(Being the purchase consideration payable to Ronak Ltd.)			

Fixed Assets A/c	Dr.	22,80,000		2 marks
Inventory A/c	Dr.	20,40,000		
Trade receivables A/c	Dr.	13,20,000		
Cash at Bank A/c	Dr.	3,90,000		
To Trade payables A/c			6,75,000	
To 12% Debentures A/c of Ronak Ltd.			6,00,000	
To Profit and Loss A/c			45,000	
To General reserve A/c ₹ (5,10,000+2,40,000*)			7,50,000	
To Business purchase A/c			39,60,000	
(Being the take over of all assets and liabilities of Ronak Ltd. by Kanak Ltd.)				
Liquidators of Ronak Ltd. A/c	Dr.	39,60,000		
To Equity Share Capital			30,00,000	
To 9% Preference share capital			9,60,000	
(Being the purchase consideration discharged)				
12% Debentures of Ronak Ltd. A/c	Dr.	6,00,000		
To 12% Debentures A/c			6,00,000	
(Being Kanak Ltd. issued their 12% Debentures in against of every Debentures of Ronak Ltd.)				

(all other entries will carry ½ mark)

Balance Sheet of Kanak Ltd. as at 2.4.2016 (3 mark)

Particulars	*Note No*	*Amount(`)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	77,10,000
(b) Reserves and Surplus	2	20,72,700
(2) Non-current Liabilities		
(a) Long-term borrowings - 12% Debentures		12,00,000
(3) Current Liabilities		
(a) Trade payables		17,25,000
Total		1,27,07,700
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		58,80,000
(2) Current assets		
(a) Inventories		31,20,000
(b) Trade receivables		30,90,000

(c) Cash and cash equivalents		6,17,700
Total		1,27,07,700

* ` 2,40,000 is the balancing figure adjusted to general reserve A/c as per AS 14 "Accounting for Amalgamation".

Notes to Accounts

			`
1	Share Capital **(1/2 mark)**		
	Equity Share Capital		52,50,000
	9% Preference share capital		24,60,000
			77,10,000
2	Reserves and Surplus **(1 mark)**		
	Profit and Loss A/c		45,000
	General Reserve		
	Share Capital of Ronak Ltd. (Equity + Preference)	42,00,000	
	Less: Share Capital issued by Kanak Ltd.	39,60,000	
	General reserve (resulted due to absorption)	2,40,000	
	Add: General reserve of Ronak Ltd.	5,10,000	
	General reserve of Kanak Ltd.	5,40,000	12,90,000
	Capital Reserve		7,37,700
			20,72,700

Working Notes: (1 ½ marks)

1. Arrear dividend to Preference Shareholders

Preference Share Capital ` 15,00,000 @ 9% will yield dividend of ` 1,35,000 per year and for 3 years = ` 4,05,000. Out of this only 10% is paid and the balance is waived off. Hence, amount paid = ` 40,500.

2. Profit on redemption of own debentures

Own Debentures with Nominal Value of ` 2,40,000 sold for ` 98 per deb = 2,40,000 x 98/100 = ` 2,35,200.

Book Value = ` 5,76,000/ 6,00,000 X 2,40,000 = ` 2,30,400. Profit on own debentures sold = ` 2,35,200 – ` 2,30,400 = ` 4,800

Balance of Own Debentures = ` 5,76,000 – 2,30,400 = ` 3,45,600 which are cancelled

3. Purchase Consideration

Equity share capital 30,000 x 50/5 x 10	=	30,00,000
9% Preference share capital 12,000 x 4/5 x 100	=	9,60,000
	`	39,60,000

Question 3

a.

Books of A Pvt. Ltd.

Investment in 13.5% Convertible Debentures in P Ltd. Account

(Interest payable 31st March & 30th September) (4 marks)

Date	*Particulars*	*Nominal*	*Interest*	*Amount*	*Date*	*Particulars*	*Nominal*	*Interest*	*Amount*
		`	`	`			`	`	`
2016					2016				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec. 31	To P&L A/c		52,313		Dec. 31	By Equity share	1,10,000		1,12,108
					Dec. 31	By Bank (See note1)		3,713	
					Dec. 31	By Balance c/d	4,40,000	14,850	4,48,434
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note 1: ` 3,713 received on 31.12.2016 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in P Ltd. Account (2 marks)

Date	*Particulars*	*Nominal*	*Amount*	*Date*	*Particulars*	*Nominal*	*Amount*
		`	`			`	`
2016				2016			
Dec 31	To 13.5% Deb.	1,00,000	1,12,108	Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		1,00,000	1,12,108			1,00,000	1,12,108

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes: (2 marks)

1. Interest paid on ` 5,00,000 purchased on May $1^{st}$, 2016 for the month of April 2016, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ` 5,625

2. Interest received on 30^{th} Sept. 2016

   On ` 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ` 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ` 50,625

3. Interest paid on ` 2,50,000 purchased on Aug. 1^{st} 2016 for April 2016 to July 2016 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = ` 11,250

4. Loss on Sale of Debentures

Cost of acquisition		
(` 5,19,375 + ` 2,45,000) x ` 2,00,000/` 7,50,000 =		2,03,833
Less: Sale Price (2000 x 103)	=	2,06,000
Profit on sale	=	` 2,167

5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct -Dec. 2016

   1,10,000 x 13.5% x 3/12 = ` 3,713

6. Cost of Debentures converted to Equity Shares

   (` 5,19,375 + ` 2,45,000) x 1,10,000/7,50,000= ` 1,12,108

7. Cost of Balance Debentures

   (` 5,19,375 + ` 2,45,000) x ` 4,40,000/` 7,50,000 = ` 4,48,434

8. Interest on Closing Debentures for period Oct. -Dec. 2016 carried forward (accrued interest)

` 4,40,000 x 13.5% x 3/12 = ` 14,850

b.

Receipts and Payments Account
For the year ended 31-3-2017 (5 marks)

To Subscription A/c (W.N.1)	67,050	By Balance b/d		
To Donation A/c	5,000	(Bank overdraft)		15,000
To Entrance Fees A/c	4,000	By Salary	19,500	
To Furniture A/c (Sale of furniture) (7,000 – 2,500)	4,500	*Add:* Outstanding of last year	1,200	
		Less: Outstanding of this year	(350)	20,350
		By Rent	4,500	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(800)	4,200
		By Printing		750
		By Insurance	500	
		Add: Prepaid in this year	150	650
		By Audit Fees	750	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	500
		By Games & Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment (Purchased) (W.N. 2)		5,000
		ByFurniture (Purchased) (W.N.3)		8,000
		By Balance c/d		
		Cash		850
		Bank (bal. fig.)		7,250
	80,550			80,550

Working Notes: (3 marks)

1. Calculation of subscription received during the year 2016-2017

	`	`
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2016-2017	3,700	
Advance in 2015-2016	1,000	(4,700)
		63,300
Add: Arrears of 2015-2016	2,600	
Advance for 2017-2018	1,500	4,100
		67,400
Less: Written off during 2016-2017		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2016-2017

Sports Equipment A/c

	`		`
To Balance b/d	25,000	By Income & Expenditure A/c	6,000
To Receipts & Payments A/c (Purchases) (bal. fig.)	5,000	(Depreciation)	
		By Balance c/d	24,000
	30,000		30,000

3. Calculation of Furniture purchased during 2016-2017

Furniture A/c

	`		`
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts & Payments A/c (Purchases)(Bal.fig.)	8,000	By Income & Expenditure A/c (Loss on sale)	2,500
		By Income & Expenditure A/c (Depreciation)	3,100
		By Balance c/d	27,900
	38,000		38,000

Question 4

Journal Entries in the books of Weak Ltd.
(7 marks)

(i)	Equity share capital (` 100) A/c Dr.	1,00,00,000	
	To Equity Share Capital (` 40) A/c		40,00,000
	To Capital Reduction A/c		60,00,000
	(Being conversion of equity share capital of ` 100 each into ` 40 each as per reconstruction scheme)		
(ii)	12% CumulativePreferenceShare capital (` 100) A/c Dr.	50,00,000	
	To 12% Cumulative Preference Share Capital (` 60) A/c		30,00,000
	To Capital Reduction A/c		20,00,000
	(Being conversion of 12% cumulative preference share capital of ` 100 each into ` 60 each as per reconstruction scheme)		
(iii)	10% Debentures A/c Dr.	40,00,000	
	To 12% Debentures A/c		28,00,000
	To Capital Reduction A/c		12,00,000
	(Being 12% debentures issued to 10% debenture - holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Trade payables A/c Dr.	20,00,000	
	To Equity Share Capital A/c		12,00,000
	To Capital Reduction A/c		8,00,000
	(Being a creditor of ` 20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of ` 40 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	1,00,000	
	Capital Reduction A/c Dr.	50,000	
	To current assets (bank A/c) A/c		1,50,000
	(Being liability for taxation settled)		
(vi)	Capital Reduction A/c Dr.	99,00,000	
	To Fixed Assets A/c		37,50,000
	To Current Assets A/c		55,00,000

	To Investments A/c		50,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments through capital reduction account)		
(vii)	Capital Reduction A/c Dr.	50,000	
	To capital Reserve A/c		50,000
	(Being balance in capital reduction account transferred to capital reserve account)		

Balance Sheet of Weak Ltd. (and reduced) as on 31.3.20X1 (4 marks)

		Particulars	Notes	`
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	82,00,000
	b	Reserves and Surplus	2	50,000
2		Non-current liabilities		
	a	Long-term borrowings	3	28,00,000
3		Current liabilities		
	a	Trade Payables		30,00,000
		Total		1,40,50,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	87,50,000
	b	Investments	5	9,50,000
2		Current assets	6	43,50,000
		Total		1,40,50,000

Notes to accounts (3 marks)

1. Share Capital Equity share capital Issued, subscribed and paid up		
1,30,000 equity shares of ` 40 each		52,00,000
Issued, subscribed and paid up		
50,000 12% Cumulative Preference shares of ` 60 each		30,00,000
Total		82,00,000
2. Reserves and Surplus		

Capital Reserve		50,000
3. Long-term borrowings		
Secured		
12% Debentures		28,00,000
4. Tangible assets		
Fixed Assets	1,25,00,000	
Adjustment under scheme of reconstruction	(37,50,000)	87,50,000
5. Investments	10,00,000	
Adjustment under scheme of reconstruction	(50,000)	9,50,000
6. Current assets	45,00,000	
Adjustment under scheme of reconstruction	(1,50,000)	43,50,000

Working Note: (2 marks)

Capital Reduction Account

	`			`
To Current Asset	50,000	By	Equity share capital	60,00,000
To P & L A/c	6,00,000	By	12% Cumulative preference share capital	20,00,000
To Fixed assets	37,50,000	By	10% Debentures	12,00,000
To Current assets	55,00,000	By	Trade payables	8,00,000
To Investment	50,000			
To Capital Reserve (bal. fig.)	50,000			
	1,00,00,000			1,00,00,000

Question 5

a.

Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods For the year ended 31st March, 2014 (6 marks)

Particulars	*Total Amount*	*Basis of Allocation*	*Pre-incorporation*	*Post-incorporation*
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	Sales	2,400	21,600
Salaries & general expenses	1,28,000	Time	32,000	96,000
Preliminary expenses	10,000	Post		10,000
Net Profit Pre-incorporation profit transfer to Capital Reserve	1,91,600		3,960	1,87,640

Working Notes: (2 marks)

1. **Sales ratio**

Particulars	`
Sales for period up to 30.06.2013 (4,80,000 x 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**

1st April, 2013 to 30 June, 2013: 1st July, 2013 to 31st March,

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

b.

M/s DEF & CO.
Memorandum Trading A/c
(2 marks)

(1.4.16 to 13.9.16)

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 claimc(3 marks)

		`
Stock on the date of fire (i.e. on 13.09.2016)		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:

Insurance claim = $\frac{\text{Loss of stock}}{\text{Value of stock on the date of fire}}$ Amount of policy

= 9,00,000/10,42,500 9,82,500 = ` 8,48,201

Working Notes: (3 marks)

1. **Calculation of original cost of the stock as on 31st March, 2016** Stock as on 31st March, 2016 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 1.4.16 to 13.9.16**

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

3. **Sales for the period of 1.4.16 to 13.9.16**

	`
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 13.9.16**

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

Question 6

Balance Sheet as at 1st August, 2016 (4 marks)

Liabilities	`	***Assets***	`
Capital Accounts:		Building	4,50,000
Shyam	2,25,000	Plant and Machinery	97,700
Laxman	2,25,000	Stock	33,000
Shankar	1,20,000	Debtors	66,900
Current Accounts:		Furniture and Fittings	66,700
Shyam	21,600	Cash at Bank	1,48,500
Laxman	6,600	(1,01,100+1,65,000-	
Sundry Creditors	29,400	1,17,600)	
Ram's Executor's Loan	2,35,200		
	8,62,800		8,62,800

Working Notes:

(1) Calculation of Goodwill: (2 marks) `

Profit for the year ended 31.3.2013	86,700
Profit for the year ended 31.3.2014	1,43,200
Profit for the year ended 31.3.2015	1,07,600
	3,37,500

Average profit = $\frac{3,37,500}{3}$ x 1,12,500 Goodwill = ` 1,12,500 X 2 years = ` 2,25,000 Ram's share of goodwill = 2,25,000 x 1/3 =75,000 Shankar's share of goodwill = 2,25,000 x 1/5 = 45,000	

2. **Balance Sheet as on 31st July, 2016 (2 mark)**

Liabilities	`	***Assets***	`
Capital A/c (balancing figure)	7,86,000	Building	4,50,000
Creditors	29,400	Stock	33,000
		Sundry Debtors	66,900
		Plant and Machinery	97,700
		Furniture & Fittings	66,700
		Cash at bank	1,01,100
	8,15,400		8,15,400

Calculation of profits made during the period of 1st April, 2016 to 31st July, 2016(2marks)

	`
Combined Capital (of all partners) as on 31.7.2016	7,86,000
Less: Capitals on 1.4.16 [2,70,000 + 240,000 + 240,000 + 4,200 + 6,000 less 3,000)	7,57,200
	28,800
Add: Drawings of all partners (60,000 + 48,000 + 54,000)	1,62,000
Total Profit	1,90,800
Share of Profit of each partner	63,600

Partners' Capital Accounts

3 marks

Dr.	Ram	Shyam	Laxman	Shankar		Ram	Shyam	Laxman	Shankar Cr.
	₹	₹	₹	₹		₹	₹	₹	₹
To Ram (Goodwill adj.)	-	37,500	37,500	–	By Balance b/d	2,70,000	2,40,000	2,40,000	–
					By Goodwill adjustment (Shyam and Laxman)	75,000	–	–	–
To Ram's Executors A/c	3,52,800	–	–	–	By Ram's current a/c	7,800	–	–	
To Shyam and Laxman	–	–	–	45,000	By Cash	–	–	–	1,65,000
					By Shankar (Goodwill adj.)	–	–		–
To Balance c/d		2,25,000	2,25,000	1,20,000			22,500	22,500	–
	3,52,800	2,62,500	2,62,500	1,65,000		3,52,800	2,62,500	2,62,500	1,65,000

5.

Partners' Current Accounts

2 marks

Dr.	*Ram*	*Shyam*	*Laxman*		*Ram*	*Shyam*	*Laxman*
	₹	₹	₹		₹	₹	₹
To Balance b/d	–	–	3,000	By Balance b/d	4,200	6,000	–
To Drawings	60,000	48,000	54,000	By Profit and loss A/c	63,600	63,600	63,600
To Capital A/c (bal. fig.)	7,800	–	–				
To Balance c/d	–	21,600	6,600				
	67,800	69,600	63,600		67,800	69,600	63,600

6.

Ram' Executors' Account

1 mark

	₹		₹
To Cash and Bank	1,17,600	By Ram's CapitalA/c	3,52,800
To Ram's Executor's Loan A/c	2,35,200		
	3,52,800		3,52,800

Question 7

*Attempt any **four** out of the following*

a. The proposals will be evaluated and vendor will be selected considering the following criteria:

a. Quantum of services provided and whether the same matches with the requirements of the hospital.

b. Reputation and background of the vendor.

c. Comparative costs of the various propositions.

d. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.

e. Assurance of quality, confidentiality and secrecy.

f. Data storage and processing facilities.

(4 marks)

b.

Statement showing differences between Hire Purchase and Installment System (1/2 mark for each point)

	Basis of Distinction	***Hire Purchase***	***Installment System***
1.	Governing Act	It is governed by Hire Purchase Act,1972.	It is governed by the Sale of Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3.	Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued installments.	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.
6.	Right of Disposal	Hirer cannot hire out sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose of the goods and give good title to the bonafide purchaser.

7.	Responsibility for Risk of Loss	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8.	Name of Parties involved	The parties involved are called Hire purchaser and Hire vendor.	The parties involved are called buyer and seller.
9.	Component other than cash price	Component other than Cash Price included in installment is called Hire charges.	Component other than Cash Price included in Installment is called Interest.

c. Business enterprises get insured against the loss of stock on the happening of certain events such as fire, flood, theft, earthquake etc. Insurance being a contract of indemnity, the claim for loss is restricted to the actual loss of assets. Sometimes an enterprise also gets itself insured against consequential loss of profit due to decreased turnover, increased expenses etc. **(1 mark)**

If loss of profits consequent to the event or mis -happening (Fire, flood, theft etc.) is also insured, the policy is known as loss of profit or consequential loss policy. **(1 mark)**
The Loss of Profit Policy normally covers the following items: **(2 marks)**

(1) Loss of net profit
(2) Standing charges.
(3) Any increased cost of working *e.g.,* renting of temporary premises.

d.

Journal Entries
(1 mark for each entry)

			`	`
(i)	Equity share Capital A/c.	Dr.	20,00,000	
	To Equity Stock			1,00,000
	To 12% Fully Convertible Debentures			19,00,000
	(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.

Calculation of Average Due Date
Computation of products for Thick's payments
(Taking 9.7.13 as base date)(1 mark)

Due Date	*Amount*	*No. of days from base date to due date*	*Product*
	`		`
9.7.13	7,200	0	0
14.8.13	12,200	36	4,39,200
	19,400		4,39,200

Computation of products for Thin's payments (Base date = 9.7.13))(1 mark)

Due Date	*Amount*	*No. of days from base date to due date*	*Product*
	`		`
15.7.13	18,000	6	1,08,000
31.8.13	16,500	53	8,74,500
	34,500		9,82,500

Excess of Thin's products over Thick [9,82,500-4,39,200] 5,43,300
Excess of Thin's amounts over Thick [34,500-19,400] 15,100
Number of days from base date to date of settlement is = $\frac{543300}{15{,}100}$ = 36 days (approx.) **(1 mark)**

Hence, the date of settlement of the balance amount is 36 days after 9th July, i.e. 14th August. Thus, on 14th August, 2013, Thin has to pay ` 15,100 to Thick. **(1 mark)**

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