

**Note : All questions are compulsory.**

**Question-1 : (8 marks)**

In the books of Mr. Chena Swami

Salem Branch Account **(3marks)**

To	Balance b/d		By Bank (Remittance to H.O.)	19,50,000
	Opening stock:		By Balance c/d	
	Ghee	40,000	Closing stock:	
	Oil	22,500	Refined oil	19,500
	Debtors	1,80,000	Ghee	90,000
	Cash on hand	25,690	Debtors (W.N. 1)	2,10,000
	Furniture & fittings	23,800	Cash on hand (W.N. 2)	44,800
To	Goods sent to Branch A/c		Furniture & fittings	21,420
	Refined Oil (30x1500x12)	5,40,000		
	Ghee (20x5000x12)	12,00,000		
To	Bank (Expenses paid by H.O.)	76,800		
	Net Profit			
To	Transferred General P&L	2,26,930		
		23,35,720		23,35,720

Mr. Chena Swami

Trading and Profit and Loss account for the year ended 31st March, 2016

(Excluding branch transactions)**(3 marks)**

To	Opening Stock:		By	Sales:	
	Refined Oil	44,000		Refined Oil	24,10,000
	Ghee	10,65,000		Ghee	38,40,500
To	Purchases:		By	Closing Stock:	
	Refined Oil	27,50,000		Refined Oil	8,90,000
	Less: Goods sent to Branch (5,40,000)	22,10,000		Ghee	15,70,000
	Ghee	48,28,000			
	Less: Goods sent				

to Branch (12,00,000)	36,28,000		
To Direct Expenses	6,35,800		
To Gross Profit	11,27,700		
	87,10,500		87,10,500
To Manager's Salary	2,40,000	By Gross Profit	11,27,700
To General Expenses	1,86,000	By Branch Profit transferred	2,26,930
To Depreciation			
Furniture (88,600-79,740)	8,860		
Building (5,10,800+2,41,600-7,14,780)	37,620		
To Manager's Commission @ 10% (8,82,150 x10/110)	80,195		
To Net profit	8,01,955		
	13,54,630		13,54,630

#### Working Notes

##### 1 Debtors Account (1 mark)

To Balance b/d	1,80,000	By Cash Collections	20,15,000
To Sales made during the year:		By Balance c/d (Bal. Figure)	2,10,000
Refined oil	5,95,000		
Ghee	14,50,000		
	22,25,000		22,25,000

##### 2 Branch Cash Account (1 mark)

To Balance b/d	25,690	By Remittance	19,50,000
To Collections	20,15,000	By Exp.	45,890
		By Balance c/d (Bal. Figure)	44,800
	20,40,690		20,40,690

#### Note:

1. Branch managers generally get commission based on the Branch profits and not on overall organizational profits. The answer given above is on the basis of the information given in the

question and the commission of branch manager is computed as 10% on overall organizational profits after charging such commission.

2. Since the amount of cash sales was not given specifically in the question, total amount of cash collections during the year amounting ` 20,15,000 has been considered as collection from Debtors in the above solution.

**Question 2 : (6 marks)**

**In the books of Vridhi Insurance Co. Ltd.**

**Journal Entries (4 marks)**

Date	Particulars	(Rs. in crores)	
		Dr.	Cr.
1.1.2015	Unexpired Risk Reserve (Fire) A/c Dr.	20.00	
	Unexpired Risk Reserve (Marine) A/c Dr.	15.00	
	Unexpired Risk Reserve (Miscellaneous) A/c Dr.	5.00	
	To Fire Revenue Account		20.00
	To Marine Revenue Account		15.00
	To Miscellaneous Revenue Account		5.00
	(Being unexpired risk reserve brought forward from last year)		
31.12.2015	Marine Revenue A/c Dr.	18.30	
	To Unexpired Risk Reserve A/c		18.30
	(Being closing reserve for unexpired risk created at 100% of net premium income amounting to Rs.18.3 crores i.e.18+7-6.70)		
	Fire Revenue A/c Dr.	21.85	
	To Unexpired Risk Reserve A/c		21.85
	(Being closing reserve for unexpired risk created at 50% of net premium income of Rs. 43.7 crores i.e.43+5-4.30)		
	Miscellaneous Revenue A/c Dr.	4.50	
	To Unexpired Risk Reserve A/c		4.50
	(Being closing reserve for unexpired risk created at 50% net premium income of Rs. 9 crores i.e. 12+4-7)		

**Unexpired Risk Reserve Account (2 marks)**

Date	Particulars	Marine (Rs.)	Fire (Rs.)	Misc. (Rs.)	Date	Particulars	Marine (Rs.)	Fire (Rs.)	Misc. (Rs.)
1.1.15	To Revenue A/c	15.00	20.00	5.00	1.1.15	By Balance b/d	15.00	20.00	5.00
31.12.15	To Balance c/d	<u>18.30</u>	<u>21.85</u>	<u>4.50</u>	31.12.15	By Revenue A/c	<u>18.30</u>	<u>21.85</u>	<u>4.50</u>
		<u>33.30</u>	<u>41.85</u>	<u>9.50</u>			<u>33.30</u>	<u>41.85</u>	<u>9.50</u>

**Question 3 : (6 marks)**

	Departments		
	A	B	C
	Rs.	Rs.	Rs.
Profit before adjustment of unrealized profits	54,000	40,500	27,000
Add : Managerial commission (1/9)	<u>6,000</u>	<u>4,500</u>	<u>3,000</u>
	60,000	45,000	30,000
Less: Unrealised profit on stock (Refer W.N.)	<u>(6,000)</u>	<u>(6,750)</u>	<u>(3,000)</u>
	54,000	38,250	27,000
Less: Managers' commission @ 10%	<u>(5,400)</u>	<u>(3,825)</u>	<u>(2,700)</u>
Profit after adjustment of unrealized profits	<u>48,600</u>	<u>34,425</u>	<u>24,300</u>

3 marks

**Working Notes:**

**Value of unrealised profit**

	Rs.
<u>Transfer by department A to</u>	
B department $(22,500 * 25/125) = 4,500$	
C department $(16,500 * 10/110) = \underline{1,500}$	6,000
<u>Transfer by department B to</u>	
A department $(21,000 * 15/100) = 3,150$	
C department $(18,000 * 20/100) = \underline{3,600}$	6,750
<u>Transfer by department C to</u>	
A department $(9,000 * 20/120) = 1,500$	
B department $(7,500 * 25/125) = \underline{1,500}$	3,000

3 marks

**Question 4 : (12 marks)****KLM Bank Limited****Profit and Loss Account for the year ended 31<sup>st</sup> March, 2016 (6 marks)**

		Schedule	Year ended 31.03.2016
			<b>Rs.</b>
I.	Income: Interest		
	earned	13	37,95,160
	Other income	14	<u>4,87,800</u>
	<b>Total</b>		<b><u>42,82,960</u></b>
II.	Expenditure		
	Interest expended	15	22,95,360
	Operating expenses and contingencies (4,50,000+2,00,000+2,00,000)	16	5,70,340
	<b>Total</b>		<b><u>8,50,000</u></b>
III.	Profits/Losses		
	Net profit for the year		5,67,260
	Profit brought forward		<u>Nil</u>
			<b><u>5,67,260</u></b>
IV.	Appropriations		
	Transfer to statutory reserve (25% of 5,67,260)		1,41,815
	Proposed dividend		50,000
	Balance carried over to balance sheet		<u>3,75,445</u>
			<b><u>5,67,260</u></b>

Profit & Loss Account balance of Rs.3,75,445 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet. (1 mark)

(Schedules will carry one mark each)

		Year ended 31.3.2016 Rs.
Schedule 13 – Interest Earned		
I.	Interest/discount on advances/bills (Refer W.N.)	<u>37,95,160</u>
		<u>37,95,160</u>
Schedule 14 – Other Income Commission,		
I.	exchange and brokerage	1,90,000
II.	Profit on sale of investment	2,25,800
III.	Rent received	<u>72,000</u>
		<u>4,87,800</u>
Schedule 15 – Interest Expended		
I.	Interests paid on deposits	<u>22,95,360</u>
		<u>22,95,360</u>
Schedule 16 – Operating Expenses		
I.	Payment to and provisions for employees (salaries & allowances)	2,50,000
II.	Rent, taxes paid	1,00,000
III.	Depreciation on assets	40,000
IV.	Director's fee, allowances and expenses Auditor's fee	35,000
		12,000
V.	Statutory (law) expenses	38,000
VI.	Postage and telegrams	65,340
VII.	Preliminary expenses <sup>2</sup>	<u>30,000</u>
VIII.		<u>5,70,340</u>

**Working Note: (1 mark)**

	Rs.
Interest and discount received	38,00,160
Add: Rebate on bills discounted on 31.3. 2015 Less:	15,000
Rebate on bills discounted on 31.3. 2016	<u>(20,000)</u>
	<u>37,95,160</u>

**Question 5: (10 marks)**

**Karma Limited**  
**Balance Sheet as on 01.04.2016 (4 marks)**

Particulars	Note No.	Figures as at the end of current reporting period

<b>I. Equity and Liabilities</b>			
(1) Shareholder's Funds			
(a) Share Capital	1		55,00,000
(b) Reserves and Surplus	2		85,85,000
(2) Non-Current Liabilities			
(a) Long-term borrowings - Unsecured Loans			45,00,000
(3) Current Liabilities			
(a) Short-term provisions			90,00,000
		Total	2,75,85,000
<b>II. Assets</b>			
(1) Non-current assets			
(a) Fixed assets			
(i) Tangible assets			1,50,00,000
(2) Current assets			
(a) Cash and cash equivalents			5,85,000
(b) Other current assets			1,20,00,000
			2,75,85,000

**Notes to Accounts (2 marks)**

		Rs.
<b>1 Share Capital</b>		
5,50,000 Equity Shares of Rs.10 each		55,00,000
<b>2 Reserve and Surplus</b>		
General Reserve	50,00,000	
Add: Debenture Redemption Reserve transfer	<u>35,00,000</u>	
	85,00,000	
Add: Profit on sale of investments	<u>2,00,000</u>	
	87,00,000	
Less: Premium on redemption of debentures (80,000 x Rs.5)	<u>(4,00,000)</u>	83,00,000
Securities Premium Account (1,50,000 x Rs.1.9)		2,85,000
		85,85,000

**Working Notes:**

**(i) Calculation of number of shares to be allotted (2 marks)**

Total number of debentures	80,000	
Less : Number of debentures not opting for conversion	<u>(12,000)</u>	
		<u>68,000</u>
25% of 68,000	17,000	
Redemption value of 17,000 debentures	Rs.17,85,000	
Number of Equity Shares to be allotted:		
<u>17,85,000</u>	= 1,50,000 shares of Rs.10 each.	
11.90		

<b>(ii) Calculation of cash to be paid</b>	
Number of debentures	80,000
Less: Number of debentures to be converted into equity shares	<u>(17,000)</u>
	<u>63,000</u>
Redemption value of 63,000 debentures (63,000 × Rs.105)	Rs.66,15,000
<b>(iii) Cash and Bank Balance</b>	
	<b>Rs.</b>
Balance before redemption	40,00,000
Add : Proceeds of investments sold	<u>32,00,000</u>
	72,00,000
Less : Cash paid to debenture holders	<u>(66,15,000)</u>
	<u>5,85,000</u>

(ii) &(iii) will carry one mark each

**Question 6 (8 marks)**

**Books of Simran Ltd.  
Journal Entries**

Date	Particulars	Debit Rs.	Credit Rs.
31.3.13	Employees Compensation Expense Account Dr. 12,000 To Employees Stock Option Outstanding Account (Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs.30) <b>(1/2 mark)</b>		12,000
	Profit and Loss Account Dr. 12,000 To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c) <b>(1/2 mark)</b>	12,000	12,000
31.3.14	Employees Compensation Expense Account Dr. 12,000 To Employees Stock Option Outstanding Account (Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs.30 each, amortized on straight line basis over 2½ years) <b>(1/2 mark)</b>		12,000
	Profit and Loss Account Dr. 12,000 To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c) <b>(1/2 mark)</b>	12,000	12,000
31.3.15	Employees Compensation Expense Account Dr. 6,000 To Employees Stock Option Outstanding Account (Being balance of compensation expense amortized Rs.30,000 less Rs.24,000) <b>(1/2 mark)</b>		6,000
	Profit and Loss Account Dr. 6,000 To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c) <b>(1/2 mark)</b>	6,000	6,000



31.7.15	Bank Account (Rs.60 × 1,000) Dr.	60,000	
	To Equity Share Capital Account To Securities Premium Account		10,000
	(Being exercise of 1,000 options at an exercise price of Rs.60)(1 mark)		50,000
31.7.15	Stock Option Outstanding A/c ('30 x 1,000) Dr.	30,000	
	To Securities Premium Account		30,000
	(Being the balance in the Employees Stock Option Outstanding Account transferred to Securities Premium A/c) (1 mark)		

### Working Notes

- (i) Total employees compensation expense = 1,000 x (Rs.90 – Rs.60) = Rs.30,000 **(1 mark)**
- (ii) Employees compensation expense has been written off during 2½ years on straight line basis as under:  
I year = Rs.12,000 (for full year) II year = Rs.12,000 (for full year) III year = Rs.6,000 (for half year)  
**(2 mark)**

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