



## INTER CA – MAY 2018

Sub: Costing & Advanced Accountancy

Topics: Hire Purchase and Instalment selling, Branch Accounts, Profit Prior to Incorporation, NBFC + MF Accounts, Amalgamation & Absorption

Test Code – M16

Branch: MULTIPLE

Date: 31.12.2017

(50 Marks)

Note: All questions are compulsory.

### Question 1 (8 marks)

#### Machinery Account (3 marks)

		Rs.			Rs.
I Yr.	To Hire Vendor A/c	15,533	I Yr.	By Depreciation A/c	1,553
		<u>          </u>		By Balance c/d	<u>13,980</u>
		15,533			15,533
II Yr.	To Balance b/d	13,980	II Yr.	By Depreciation A/c*	1,398
		<u>          </u>		By Balance c/d	<u>12,582</u>
		13,980			13,980
III Yr.	To Balance b/d	12,582	III Yr.	By Depreciation A/c*	1,258
		<u>          </u>		By Hire Vendor	11,000
		12,582		By Profit & Loss A/c	324
				(Loss on Surrender)	<u>          </u>
					12,582

#### Hire Vendor Account (3 marks)

		Rs.			Rs.
I Yr.	To Bank A/c	6,000	I Yr.	By Machinery A/c	15,533
	To Balance c/d	<u>12,639</u>		By Interest A/c	<u>3,106</u>
		18,639			18,639
II Yr.	To Bank A/c	6,000	II Yr.	By Balance b/d	12,639
	To Balance c/d	<u>9,167</u>		By Interest A/c	<u>2,528</u>
		15,167			15,167
III Yr.	To Machinery A/c (transfer)	11,000	III Yr.	By Balance b/d	9,167
		<u>          </u>		By Interest A/c	<u>1,833</u>
		11,000			11,000

Note : Alternatively, total interest could have been debited to Interest Suspense A/c and credited to Hire Vendor A/c with consequential changes.

\*It has been assumed that depreciation has been written off on written down value method. Alternatively straight line method may be assumed.

Depreciation has been directly credited to the Machinery Account; it could have been accumulated in provision for depreciation account.

Working Notes: (2 marks)

		Instalment Amount	Interest	Principal
4th Instalment		6,000	<b>Rs.</b>	<b>Rs.</b>
Interest	6,000 x 20	<u>1,000</u>	1,000	5,000
	120	5,000		
		<u>6,000</u>		
Add : 3rd Instalment		11,000		
Interest	11,000 x 20	<u>1,833</u>	1,833	4,167
	120	9,167		
		<u>6,000</u>		
Add : 2nd Instalment		15,167		
Interest	15,167 x 20	<u>2,528</u>	2,528	3,472
	120	12,639		
		<u>6,000</u>		
Add : 1st Instalment		18,639		
18369 x 20/120				
		<u>3,106</u>	<u>3,106</u>	<u>2,894</u>
		<u>15,533</u>	<u>8,467</u>	<u>15,533</u>

**Question 2 (6 Marks)**

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

	<b>Basis of Distinction</b>	<b>Hire Purchase</b>	<b>Installment System</b>
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.

**Question 3 (6 Marks)**

**In the books of ABC Ltd.  
New York Branch Trial Balance in (₹)  
as on 31st March, 2015  
(6 marks)**

	<i>Conversion</i>	<i>Dr.</i>	<i>Cr.</i>
	(₹)	₹	₹
Stock on 1.4.14 <b>(1 mark)</b>	40	6,000	—
Purchases and sales <b>(1 mark)</b>	41	16,400	30,750
Sundry debtors and creditors <b>(1 mark)</b>	42	8,400	6,300
Bills of exchange <b>(1 mark)</b>	42	2,520	5,040
Sundry expenses <b>(1/2 mark)</b>	41	22,140	—
Bank balance <b>(1 mark)</b>	42	8,820	—
Delhi head office A/c <b>(1/2 mark)</b>	—	—	22,190
		64,280	64,280

**Question 4 (8 Marks)**

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

<i>Particulars</i>	<i>Total Amount</i>	<i>Basis of Allocation</i>	<i>Pre-incorporation</i>	<i>Post-incorporation</i>
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			10,000

Net Profit		Post		
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 × 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**

1<sup>st</sup> April, 2013 to 30 June, 2013: 1<sup>st</sup> July, 2013 to 31<sup>st</sup> March,

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

**Question 5 (6 Marks)**

**Statements showing Classification of Assets (` Lakhs)**

Assets	Particulars	Amt	Amt
Standard Assets (2 marks)	Accounts (Balancing figure)	86	
	200 Accounts overdue for a period for 2 Months	40	
	24 Accounts overdue for a period by 3 Months	24	150
Sub-Standard Assets (1 mark)	4 Accounts identified as Sub-Standard Asset for a period less than 12 months		14
Doubtful Assets (2 marks)	6 Accounts identified as Sub-Standard Asset for a period more than 12 months		6
	4 Accounts identified as Sub-Standard Asset for a period more than 3 months		20
Loss Assets (1 mark)	1 Account identified by Management as Loss Asset		10
			200

**Question 6 (16 Marks)**

**In the Books of Kanak Ltd.**

		<i>Dr.</i>	<i>Cr.</i>
<i>01.04.2016</i>		<i>Amount</i>	<i>Amount</i>
		₹	₹
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	
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

2 marks

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
<b>(2) Non-current Liabilities</b>		
(a) Long-term borrowings - 12% Debentures		12,00,000
<b>(3) Current Liabilities</b>		
(a) Trade payables		17,25,000
<b>Total</b>		<u>1,27,07,700</u>
<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
(a) Fixed assets		
(i) Tangible assets		58,80,000
<b>(2) Current assets</b>		
(a) Inventories		31,20,000
(b) Trade receivables		30,90,000
(c) Cash and cash equivalents		6,17,700
<b>Total</b>		<u>1,27,07,700</u>

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

### Notes to Accounts

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

### Working Notes: (3 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 =  $2,40,000 \times \frac{98}{100} = ` 2,35,200$ .

Book Value =  $\frac{5,76,000}{6,00,000} \times 2,40,000 = ` 2,30,400$ . 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  $30,000 \times \frac{50}{5} \times 10 = 30,00,000$

9% Preference share capital  $12,000 \times \frac{4}{5} \times 100 = \underline{9,60,000}$

` 39,60,000

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