KSA Model Exam Inter Old Syllabus Accounts Answer Key

1. a.

As per para 13 of AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognised when no significant uncertainty as to measurability or collectability exists. These revenues are recognised on the following bases:

(i) Interest: on a time proportion basis taking into account the amount outstanding and the rate applicable.

(ii) Royalties: on an accrual basis in accordance with the terms of the relevant agreement.

b.

According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd.:

	₹
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of Plant	46,60,000

Note: Operating losses before commercial production amounting to ₹ 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

c.

Net Realisable Value of Inventory as on 31st March, 2017

= ₹ 107.75 x 20 units = ₹ 2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

01.03.2017	₹ 108 x 20 units = ₹ 2160
08.3.2017	₹ 107 x 15 units = ₹ 1605
17.03.2017	₹ 109 x 30 units = ₹ 3270
25.03.2017	₹ 107 x 15 units = ₹ 1605
Total	80 units = ₹ 8640

Weighted Average Cost = ₹ 8640/80 units = ₹108

Total cost = ₹ 108 x 20 units = ₹ 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2017 is, Cost or Net Realisable value whichever is lower i.e. ₹ 2,155.

d.

As it is stated in the question that financial statements for the year ended 31st March, 2015 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On these bases, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to ₹ 20,000 in the financial statements for the year ended 31st March, 2015.

2.

Journal Entries

			₹	₹
	Bank A/c	Dr.	10,00,000	
	To Equity share capital A/c			10,00,000
	(Being money on final call received)			
	Equity share capital (₹ 50) A/c	Dr.	75,00,000	
	To Equity share capital (₹ 40) A/c			60,00,000
	To Capital Reduction A/c			15,00,000
	(Being conversion of equity share capital of ₹ 50 each into ₹ 40 each as per reconstruction scheme)			
	Bank A/c	Dr.	12,50,000	
	To Equity Share Capital A/c			12,50,000
	(Being new shares allotted at ₹ 40 each)			
	Trade Creditors A/c	Dr.	12,40,000	
	To Equity share capital A/c			7,50,000
	To Bank A/c (4,90,000 x 70%)			3,43,000
	To Capital Reduction A/c			1,47,000
	(Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)			
	8% Debentures A/c	Dr.	3,00,000	
	12% Debentures A/c	Dr.	4,00,000	
	To Shiv A/c			7,00,000
	(Being cancellation of 8% and 12% debentures of Shiv)			
	Shiv A/c	Dr.	8,00,000	
	To 15% Debentures A/c			6,00,000
	To Capital Reduction A/c			2,00,000
	(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
	Bank A/c	Dr.	1,00,000	
	To Shiv A/c			1,00,000

	(Being new debentures subscribed by Shiv)		
	8% Debentures A/c Dr.	1,00,000	
	12% Debentures A/c Dr.	2,00,000	
	To Ganesh A/c		3,00,000
	(Being cancellation of 8% and 12% debentures of Ganesh)		
	Ganesh A/c Dr.	3,00,000	
	To 15% Debentures A/c		2,50,000
	To Capital Reduction A/c		50,000
	(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)		
	Land and Building Dr. (51,84,000 – 42,70,000)	9,14,000	
	Inventories Dr.	30,000	
	To Capital Reduction A/c		9,44,000
	(Being value of assets appreciated)		
	Outstanding expenses A/c Dr.	10,60,000	
	To Bank A/c		10,60,000
	(Being outstanding expenses paid in cash)		
	Capital Reduction A/c Dr.	33,41,000	
	To Machinery A/c		1,30,000
	To Computers A/c		1,20,000
	To Trade receivables A/c		1,09,000
	To Goodwill A/c		22,00,000
	To Profit and Loss A/c		7,82,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)		
	Capital Reserve A/c Dr.	5,00,000	
	To Capital Reduction A/c		5,00,000
	(Being debit balance of capital reduction account adjusted against capital reserve)		

Balance Sheet (as reduced) as on 31.3.2014

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	80,00,000
2		**Non-current liabilities**		
	a	Long-term borrowings	2	8,50,000
		Total		**88,50,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	3	63,04,000
2		**Current assets**		
	a	Inventories		3,50,000
	b	Trade receivables		9,81,000
	c	Cash and cash equivalents		12,15,000
		Total		**88,50,000**

Notes to accounts

			₹
1.	**Share Capital**		
	2,00,000 Equity shares of ₹ 40		80,00,000
2.	**Long-term borrowings**		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	**Tangible assets**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

1. **Cash at Bank Account**

	Particulars	₹		Particulars	₹
To	Balance b/d	2,68,000	By	Trade Creditors A/c	3,43,000
To	Equity Share capital A/c	10,00,000	By	Outstanding expenses A/c	10,60,000
To	Equity Share Capital A/c	12,50,000	By	Balance c/d (bal. fig.)	12,15,000
To	Shiv A/c	1,00,000			
		26,18,000			26,18,000

2. **Capital Reduction Account**

	Particulars	₹		Particulars	₹
To	Machinery A/c	1,30,000	By	Equity Share Capital A/c	15,00,000
To	Computers A/c	1,20,000	By	Trade Creditors A/c	1,47,000
To	Trade receivables A/c	1,09,000	By	Shiv A/c	2,00,000
To	Goodwill A/c	22,00,000	By	Ganesh A/c	50,000
To	Profit and Loss A/c	7,82,000	By	Land & Building	9,14,000
			By	Inventories	30,000
			By	Capital Reserve A/c	5,00,000
		33,41,000			33,41,000

3.

Books of K Ltd.

Realisation Account

		₹			₹
To	Goodwill	80,000	By	5% Debentures	2,00,000
To	Land & Building	4,50,000	By	Trade payables	1,00,000
To	Plant & Machinery	6,20,000	By	LK Ltd.	15,60,000
To	Furniture & Fitting	60,000		(Purchase consideration)	
To	Trade receivables	2,75,000	By	Equity shareholders A/c	51,375
To	Stores & inventory	2,25,000		(loss)	
To	Cash at Bank	1,20,000			
To	Cash in hand	41,375			
To	Preference shareholders				
	(excess payment)	40,000			
		19,11,375			19,11,375

Equity Shareholders Account

		₹			₹
To	Realisation A/c (loss)	51,375	By	Share capital	8,00,000
To	Equity Shares in LK Ltd.	10,56,000	By	Profit & Loss A/c	3,71,375
To	Cash	64,000			
		11,71,375			11,71,375

7% Preference Shareholders Account

		₹			₹
To	Preference Shares in LK Ltd.	4,40,000	By	Share capital	4,00,000
			By	Realisation A/c	40,000
		4,40,000			4,40,000

LK Ltd. Account

		₹				₹
To	Realisation A/c	15,60,000	By	Equity Shares in LK Ltd.		
				For Equity	10,56,000	
				Pref.	4,40,000	14,96,000
			By	Cash		64,000
		15,60,000				15,60,000

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Books of L Ltd.

Realisation Account

		₹			₹
To	Land & Building	3,00,000	By	Trade payables	2,10,000
To	Plant & Machinery	5,00,000	By	Secured loan	2,00,000
To	Furniture & Fittings	20,000	By	LK Ltd. (Purchase	
To	Trade receivables	1,75,000		consideration)	7,90,000
To	Inventory of stores	1,40,000	By	Equity shareholders A/c—	
To	Cash at bank	55,000		Loss	37,175
To	Cash in hand	17,175			
To	Pref. shareholders	30,000			
		12,37,175			12,37,175

Equity Shareholders Account

		₹			₹
To	Equity shares in LK Ltd.	3,96,000	By	Share Capital	3,00,000
To	Realisation	37,175	By	Profit & Loss A/c	97,175
To	Cash	64,000	By	Reserve	1,00,000
		4,97,175			4,97,175

7% Preference Shareholders Account

		₹			₹
To	Preference Shares in LK Ltd.	3,30,000	By	Share capital	3,00,000
			By	Realisation A/c	30,000
		3,30,000		3,30,000	

LK Ltd. Account

		₹				₹
To	Realisation A/c	7,90,000	By	Equity shares in LK Ltd.		
				For Equity	3,96,000	
				Preference	3,30,000	7,26,000
			By	Cash		64,000
		7,90,000				7,90,000

Working Notes:

(i) Purchase consideration

	K Ltd. ₹	L Ltd. ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,40,000	3,30,000
Equity Shares at ₹ 22 per share	10,56,000	3,96,000
Cash [See W.N. (*ii*)]	64,000	64,000
	15,60,000	7,90,000

(ii) Value of Net Assets

		K Ltd. ₹		L Ltd. ₹
Goodwill		80,000		
Land & Building		4,50,000		3,00,000
Plant & Machinery		6,20,000		5,00,000
Furniture & Fittings		60,000		20,000
Trade receivables less 2.5%		2,68,125		1,70,625
Inventory less 2%		2,20,500		1,37,200
Cash at Bank		1,20,000		55,000
Cash in hand		41,375		17,175
		18,60,000		12,00,000
Less : Debentures	2,00,000		–	
Trade payables	1,00,000		2,10,000	
Secured Loans		(3,00,000)	2,00,000	(4,10,000)
		15,60,000		7,90,000
Payable in shares		14,96,000		7,26,000
Payable in cash		64,000		64,000

4.

Capital Account

for the year ended 31st March, 2011

	₹		₹
To Drawings:		By Cash/bank	20,000
Motor car expenses	4,000	By Cash bank (pension)	30,000
(one-third of ₹ 12,000)		By Net income from practice	47,500
Household expenses	18,000	(derived from income and	
Daughter's marriage exp.	21,500	expenditure a/c)	
Wages of domestic servants	3,000		
Household furniture	2,500		
To Balance c/d	48,500		
	97,500		97,500

Income and Expenditure Account
for the year ended 31st March, 2011

		₹		₹
To Medicines consumed			By Prescription fees	52,500
Purchases	24,500		By Gift from patients	13,500
Less: Stock on 31.3.11	(9,500)	15,000	By Visiting fees	25,000
To Motor car expense		8,000	By Fees from lectures	2,400
To Wages and salaries(₹ 10,500 – ₹ 3,000)		7,500		
To Rent for clinic		6,000		
To General charges		4,900		
To Interest on loan		4,500		
To Net Income		47,500		
		93,400		93,400

Balance Sheet
as on 31st March, 2011

Liabilities	₹	*Assets*	₹
Capital	48,500	Motor car	32,000
Loan	30,000	Surgical equipment	25,000
		Stock of medicines	9,500
		Cash at bank	11,000
		Cash in hand	1,000
	78,500		78,500

5. a.

Solution

MA (P) Ltd.

Statement showing calculation of profit/losses for pre and post incorporation periods

		Pre-inc.	*Post-inc.*
		₹	₹
Sales		26,00,000	2,08,00,000
Less:	Cost of goods sold	18,20,000	1,45,60,000
	Salaries	90,000	10,80,000
	Depreciation	36,000	1,44,000
	Advertisement	78,000	6,24,000
	Discounts	1,30,000	10,40,000
	M.D.'s remuneration	—	90,000
	Misc. Office Expenses	24,000	96,000
	Rent	90,000	6,30,000
	Interest	3,51,000	6,00,000
Net Profit/(Loss)		(19,000)	19,36,000

Working Notes:

(1) Calculation of ratio of sales:

Let the average sales per month in pre-incorporation period be x. Then the average sales in post-inc. period are 2x. Thus total sales are $(3 \times x) + (12 \times 2x)$ or $27x$. Ratio of sales will be $3x : 24x$ or 1:8.

Time ratio is 3 months : 12 months or 1:4

(2) Expenses apportioned on turnover ratio basis are cost of goods sold, advertisement, discounts.

(3) Expenses apportioned on time ratio basis are Depreciation, and misc. office expenses.

(4) Ratio for apportionment of Salaries:

If pre-incorporation monthly average is x, for 3 months 3x.

Average for balance 12 months 3x, for 12 months 36x.

Hence ratio for division, 1:12.

(5) Apportionment of Rent:

		₹
Total Rent		7,20,000
Additional rent for 9 months (From 1st July 2014 to 31st March, 2015)		(2,70,000)
Rent for old premises for 15 months at ₹ 30,000 p.m.		4,50,000
	Pre-inc.	Post-inc.
Old Premises	90,000	3,60,000
Additional rent	—	2,70,000
	90,000	6,30,000

Note on treatment

Since the profits prior to incorporation are in the negative, they would:

(*a*) Either be considered as a reduction from any capital reserve accruing in relation to the transaction, or

(*b*) Be treated as goodwill.

b.

Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{10}{110} = 1/11$

There is no interest element in the down payment as it is paid on the date of the transaction. Instalments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

Calculation of Interest and Cash Price

No. of instalments	*Amount due at the time of instalment*	*Interest*	*Cumulative Cash price*
[1]	*[2]*	*[3]*	*(2-3) = [4]*
3rd	2,20,000	1/11 of ₹ 2,20,000 =₹ 20,000	2,00,000
2nd	4,20,000 [W.N.1]	1/11 of ₹ 4,20,000= ₹ 38,182	3,81,818
1st	6,01,818 [W.N.2]	1/11of ₹ 6,01,818= ₹ 54,711	5,47,107

Total cash price = ₹ 5,47,107+ 2,40,000 (down payment) =₹ 7,87,107.

Working Notes:

1. ₹ 2,00,000+ 2nd instalment of ₹ 2,20,000= ₹ 4,20,000.
2. ₹ 3,81,818+ 1st instalment of ₹ 2,20,000= ₹ 6,01,818.

6.

Balance Sheet as at 1st August, 2017

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:

	₹
Profit for the year ended 31.3.2014	86,700
Profit for the year ended 31.3.2015	1,43,200
Profit for the year ended 31.3.2016	1,07,600
	3,37,500

Average profit = $\frac{3,37,500}{3} = 1,12,500$

Goodwill = ₹ 1,12,500 X 2 years = ₹ 2,25,000

Ram's share of goodwill = $2,25,000 \times \frac{1}{3} = 75,000$

Shankar's share of goodwill = $2,25,000 \times \frac{1}{5} = 45,000$

2. Balance Sheet as on 31st July, 2017

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

3. Calculation of profits made during the period of 1st April, 2017 to 31st July, 2017

	₹
Combined Capital (of all partners) as on 31.7.2017	7,86,000
Less: Combined Capitals on 1.4.17	
[2,70,000 + 2,40,000 + 2,40,000 + 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

4. Partners' Capital Accounts

	Ram	Shyam	Laxman	Shankar		Ram	Shyam	Laxman	Shankar
	₹	₹	₹	₹		₹	₹	₹	₹
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.)		22,500	22,500	
To Balance c/d		2,25,000	2,25,000	1,20,000					–
	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**

Dr.								*Cr.*
	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**

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

7.

(a) (i) Current Liabilities/ Other Current Liabilities

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

(vi) Fixed Assets

(vii) Shareholders' Fund / Money received against share warrants

(viii) Current Assets

(b) As per AS 9 'Revenue Recognition', the additional revenue on account of increase in sales price with retrospective effect, as decided by Board of Directors of X Ltd., of ₹5 lakhs to be recognized as income for financial year 2016-17, only if the company is able to assess the ultimate collection with reasonable certainty. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

(c) (i) Operating Activities: c, e, f, g, j, m, o.

(ii) Investing Activities: a, h, k, l, p.

(iii) Financing Activities: b, d, i, n.

(d) Calculation of number of days from the base date

Due date	*Amount (₹)*	*No. of days from 5.3.17*	*Product*
5.3.2017	5,000	0	0
7.4.2017	7,500	33	2,47,500
17.7.2017	6,000	134	8,04,000
14.9.2017	8,000	193	15,44,000
	26,500		25,95,500

$$\text{Average due date} = \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of Amount}}$$

$$= 5.3.2017 + \frac{25,95,500}{26,500} = 98 \text{ days (round off)}$$

The date of the cheque will be 98 days from the base date i.e.11.6.2017. S 11th June, 2017, all bills will be settled by a single cheque payment.

(e) Computation of effective capital:

		₹
Paid-up share capital-		
20,000, 14% Preference shares		20,00,000
1,20,000 Equity shares		96,00,000
Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
Public Deposits		3,70,000
	(A)	1,85,65,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,00,000
	(B)	90,00,000
Effective capital	(A–B)	95,65,000