ACCOUNTS

(Three hours)

(Candidates are allowed additional 15 minutes for **only** *reading the paper.*

They must NOT start writing during this time.)

Answer **Question 1** *(compulsory)* and **Question 2** *(compulsory) from Part I and any other* **five** *questions from Part II.*

The intended marks for questions or parts of questions are given in brackets [ ].

Transactions should be recorded in the answer book.

All calculations should be shown clearly.

All working, including rough work, should be done on the same sheet as, and adjacent to, the rest of the answer.

PART I

Question 1 **[10 × 2]**

Answer each of the following questions briefly:

(i) How will you deal with the following items during the preparation of a cost sheet?

(a) Salary of Public Relations Officer.

(b) Subscription to technical journals.

(ii) What journal entry will you pass when unsold stock is taken over by a Co-venturer assuming that a separate set of books is maintained?

(iii) Which method of valuation of inventory will you recommend during:

(a) Periods of rising prices.

(b) Periods of falling prices.

(iv) State the entries you will pass in case of transfer from Debtors Ledger to Creditors Ledger under Self Balancing System.

(v) State *two* differences between average profits and super profits.

(vi) What are the closing entries for interest on calls in arrear account and interest on calls in advance account?

This Paper consists of 7 printed pages and 1 blank page.

(vii) State *two* differences between current ratio and quick ratio.

(viii) List *any two* types of operating activities.

(ix) Explain the nature of *interest on debentures*.

(x) How will you deal with a situation when a solvent partner's capital account reflects a debit balance in the application of Garner Vs Murray?

Question 2 **[10]**

The following information is available from the records of Singh and Company Limited for the month ended 30th September 2010:

	Rs.
Purchases of raw materials	1,00,000
Opening stock of finished goods (1000 units)	13,600
Direct wages	68,000
Factory overhead	80% of direct wages
Administrative overhead	Rs. 2 per unit
Selling and Distribution overhead	Rs. 1.50 per unit
Closing stock of finished goods	1,800 units
Royalties on production	10,000
Sale of scrap of raw materials (normal loss)	8,000

The manufacturer sells the product so as to reflect a profit of 25% on sales and 6200 units are sold in the market.

From the above information, you are required to prepare a Cost Sheet showing the total cost for the month ended 30th September 2010.

Note: All calculations are to be made to the nearest rupee and sales are made on the basis of LIFO principle.

PART II

Question 3 **[14]**

Roger and Suresh sharing profits and losses in the ratio of 3:2 jointly agreed to underwrite the subscription of 60,000 equity shares of Rs.10 each of Parag and Company Limited at a premium of Rs.3 per share. The underwriting commission is 4% as provided in the Articles. Applications were received from the public only for 40,000 shares and so the underwriters took over the remaining shares. A joint bank account was opened towards which Roger contributed Rs.55,000 and Suresh Rs.45,000. A sum of Rs.7,000 was incurred on various expenses which were paid out of the joint bank account. Parag and Company paid the underwriting commission by cheque. At the close of the venture, the underwriters sold 12,000 shares at the rate of Rs.15 per share and the rest of the shares were taken up by them at the rate of Rs.14 per share, in their profit and loss sharing ratio.

Prepare:

(i) **Joint Venture Account**

(ii) **Co-Venturers' Account**

(iii) **Joint Bank Account**

Question 4 **[14]**

Mr. Khanna maintains his books on sectional balancing ledgers.

Transactions during the month of November 2010 were:

Transactions	Rs.	Transactions	Rs.
Total Sales	1,35,000	Credit Sales	1,16,000
Purchases (Credit)	72,700	Purchases (Cash)	11,800
Bad debts written off	1,000	Provision for bad and doubtful debts	270
Purchases returns (out of credit purchases)	2,500	Amount received against bad debts written off last year	600
Discount received	300	Cash collected from debtors	83,000
Bills receivable received (excluding bills renewed)	57,500	Noting charges debited to debtors	592
Bills receivable renewed	10,000	Bills payable accepted	8,000
Sold Ledger (Cr) on 30.11.2010	260		

On 01.11.2010, Bought Ledger (Cr) Rs.30,000 and Sold Ledger (Dr) Rs.60,000.

From the above particulars, prepare Control Accounts in the relevant ledger.

Question 5 **[14]**

Given below is the Balance Sheet of Gurmeet and Company Limited as on 31st December 2009 and 31st December 2010:

Liabilities	2009 Rs.	2010 Rs.	Assets	2009 Rs.	2010 Rs.
Equity share capital	3,00,000	3,50,000	Goodwill	1,00,000	80,000
General reserve	1,00,000	1,50,000	Machinery	3,20,000	4,10,000
Profit and Loss account	60,000	70,000	12% Investments	30,000	80,000
11% Debentures	1,50,000	2,50,000	Stock	40,000	55,000
Creditors	75,000	1,10,000	Debtors	80,000	1,90,000
Bills Payable	10,000	15,000	Bank	1,20,000	1,30,000
			Debenture Discount	5,000	---------
	6,95,000	9,45,000		6,95,000	9,45,000

(a) Investments costing Rs.36,000 were sold for Rs.30,000 during the year 2010.

(b) New debentures have been issued at the end of the current accounting year.

(c) New investments have been purchased at the end of the current accounting year.

(d) Depreciation charged on machinery during the current accounting year was Rs.10,000.

From the above information prepare a Cash Flow Statement as per Accounting Standard-3.

Question 6 **[14]**

Ahmed, Bina and Chitra are partners sharing profits and losses in the ratio of 3:2:1. Their balance sheet as on 31st March 2010 stood as under:

Liabilities	Rs.	Assets	Rs.
Ahmed's capital	1,50,000	Equipment	3,00,000
Bina's capital	1,00,000	Furniture	50,000
Chitra's capital	50,000	Stock	75,000
General reserve	1,20,000	Debtors	80,000
Bills payable	20,000	Cash	10,000
Creditors	75,000		
	5,15,000		5,15,000

Ahmed died on 31.03.2010 and the following decisions were taken by the surviving partners according to the partnership deed:

(a) Equipment to be revalued at Rs.3,50,000 and furniture to appreciate by Rs.10,000.

(b) A provision of 10% to be created for doubtful debts.

(c) Stock to be revalued at Rs.83,000.

(d) The goodwill of the firm was valued at Rs.30,000 on Ahmed's death.

The firm had a joint life policy of Rs.90,000. The policy was surrendered and the death claim was realized in full by cheque from the insurance company.

The surviving partners finally agreed that the values of assets and liabilities must remain the same and as such, there must not be any change in their book values as a result of the above mentioned adjustments, excepting the bank balance.

The amount payable to Ahmed was transferred to his executor's account.

Prepare Partners Capital Account and a Balance Sheet of Bina and Chitra.

Question 7 **[14]**

Sachdeva Tyres and Company Limited issued applications for 100000 equity shares of Rs.10 each at a premium of Rs.3 per share. The amount was payable as follows:

(i) On application: Rs.2

(ii) On allotment: Rs.5 (including premium)

(iii) Balance on the first and the final call.

Applications were received for 150000 shares. Allotment was made pro-rata to all applicants. Sudhir who had applied for 300 shares failed to pay allotment and call money. His shares were forfeited after the first and the final call. Of these, 170 shares were reissued to Pramod at Rs.9 per share fully paid.

Pass the necessary Journal Entries to show the above transactions. Show your workings clearly.

Question 8 **[14]**

(i) Gurung Ltd. took over assets of Rs.6,00,000 and liabilities of Rs.60,000 from Batra Ltd. for the purchase consideration of Rs.5,50,000. It paid the purchase consideration by issuing 8% debentures of Rs.100 each at 10% premium.

(ii) Gurung Ltd. purchased land from Jaiswal Ltd. for Rs.4,50,000. The consideration was paid by issuing 5% debentures at a discount of 10%.

(iii) Gurung Ltd. issued 1,000, 6% debentures of Rs.100 each at a discount of 7% repayable after 5 years at a premium of 10%.

From the above particulars, pass journal entries in the books of Gurung Ltd. to record the transactions.

Question 9 **[14]**

David and Bimal are partners sharing profits and losses in the ratio 3:2. Their Balance Sheet as on 31st March 2010, was as follows:

Balance Sheet as on 31st March 2010

Liabilities		Amount Rs.	Assets		Amount Rs.
Sundry creditors		82,000	Cash		32,000
General reserve		3,000	Stock		15,000
Capital A/c			Debtors	9,400	
David	18,000		Less provision for		
Bimal	12,000	30,000	Doubtful debts	400	9,000
			Building		55,000
			Furniture		4,000
		1,15,000			1,15,000

They admitted Chander as a new partner on 1.4.2010 and the new profit sharing ratio became 5:3:2. Chander introduced a capital of Rs.16,000. Chander was unable to bring any cash for goodwill and so it was decided to value the goodwill on the basis of his share in the profits and the capital contributed by him. The following revaluations were made at the time of Chander's admission:

(i) Stock had been overvalued by Rs.750 and furniture by Rs.500.

(ii) Provision for doubtful debts to be increased by Rs.100.

(iii) A creditor for Rs.2,350 was paid off by Bimal privately for which he was not to be reimbursed.

Prepare the Revaluation account, Partners' capital accounts and a Balance Sheet of the new firm on the date of Chander's admission. Show your workings clearly.

Question 10 **[14]**

The following figures have been extracted from the books of Arvind and Company Limited:

	Rs.
Net sales	12,00,000
Net purchases	5,00,000
Administrative expenses	65,000
Selling and distribution expenses	35,000
Gross profit	20% on sales
Net profit after tax	10,00,000
Total assets	40,00,000
Equity share capital of Rs.10 each	10,00,000
10% Preference share capital of Rs.10 each	3,00,000
Reserves and surplus	2,00,000
8% Debentures	8,00,000
Opening debtors	1,20,000
Closing debtors	80,000
Opening bills receivable	60,000
Closing bills receivable	40,000
Opening creditors	1,30,000
Closing creditors	70,000
Closing bills payable	50,000
Opening bills payable	1,10,000

From the above information, calculate the following :

(a) **Total assets to debt ratio**

(b) **Debt equity ratio**

(c) **Operating ratio**

(d) **Operating profit ratio**

(e) **Earning per share**

(f) **Debtors turnover ratio**

(g) **Creditors turnover ratio**

Note: All calculations are to be made to two places of decimal.
