

Solution to 2007 Paper

(1) Computation of comparative performance of plant under Existing Capacity and converted to 100% capacity

Plant	Plant location I	Plant location II	Merged Plant
Existing Capacity	100%	75%	
Sales (Rs in Lakhs)	200	75	275
Less: variable cost (Rs in Lakhs)	140	54	195
Contributions	60	21	81
Less: Fixed cost	30	14	44
Profit/ Loss	30	07	37
Converted To 100% Capacity			
Capacity (%)	100%	100%	100%
Sales (Rs In Lakhs)	200	100	300
Less: Variable cost (Rs in Lakhs)	140	72	212
Contribution	60	28	88
Less: Fixed cost (Rs in Lakhs)	30	14	44
Profit/Loss	30	14	44
P/V ratio (%) = C/S	30	28	39.33
BEP (FC ÷ P/V)			150

- (a) Capacity at BEP % (i. e. Sales at BEP / Total Sales) = 50%
- (b) Computation of profitability of Merged plant working at 80% capacity

(Rs. in lakhs)

Sales (80% of 300)	240
less: variable cost	169.60
Contribution	70.40
Less: Fixed cost	44
Profit	26.40

- (c) Computation of sales required to earn the overall profit of Rs. 22 lakhs

Contribution required:	Rs in lakhs
Fixed cost	44.00
Desired Profit	22.00
P/V Ratios	66
	29.33%
Desired sales level =	66
	----- =225.00 lakhs
	0.2933

(c) Prime cost = Direct Material + Direct Labour + Direct Expenses.
 (2) (a) (i) Mahesh's A/C Dr. 1000
 Suspense A/C Dr. 3000
 To Mohit's Account 4000
 (Cash received from Mohit Rs 4000 wrongly posted to Mahesh as on now rectified)

(ii) Arnav's A/C Dr 6000
 To Bank A/C 5800
 To Discount Allowed A/C 200
 (iii) Khanna's A/C Dr 7000
 To Bad debts recovered A/C 800
 (iv) Manav's A/C Dr 7000
 To Purchase A/C 2000
 To Sales A/C 5000
 (v) Purchases A/C Dr 1000
 To Suspense A/C 1000
 (vi) Repairs A/C Dr 1600
 To Machinery A/C 1000
 To Suspense 600

(b) Trial Balance: A trial balance is statement showing the balances or total of debits and credits of all the accounts in the ledger with a view to verify the arithmetical accuracy of posting into ledger accounts

Dancing Club

(3) Trading Account for the year ended 31st march, 2002:

Particulars	Bar	Restaurant	Particulars	Bar	Restaurant
To opening stock	1560	510	By collection	21,250	14360
To Purchases	14,365	11,735	By clearing stock	4000	1230
To Establishment	4960	3540	By Income & Expenditure		
To Depreciation A/C:			debit Transferred		1083
On Furniture	900	600			
On Cutlery, linen etc.	432	288			
To Income & Expenditure A/c- Surplus transferred	3033				
	25,250	16,673		25,250	16,673

Income & Expenditure Account for the year ended 31.03.2002

Expenditure	Rs	Rs	Income	Rs	Rs
To Establishment		4260	By subscription		25730
To Rent & Rates		6700	By tennis receipts		7620
To electric charge		1720	By Interest		480
To depreciation			By profit on trading		
Furniture	1500		Bar	3033	
Tennis Accessories	1100	2600	less: loss in Restaurant		
To Excess of Income over			Section	1083	1950
Expenditure A/C					
-Surplus transferred		20,500			
		35,780			35,780

Balance sheet as at 31.03.02

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund:			Furniture	15000	
Balance on 1.4.01	17720		less Depreciation	300	
				12000	
Add. Excess of income over		38,220	Add. During the year	500	12500
Expenditure		5000	Tennis Accessories	5500	
Creditors			Less Depreciation	1100	4400
			China, Cutlery, linen	2400	
			During the year	1200	
				3600	
			Less Depreciation	720	2880
			Investments		4000
			Stock in Bar		4000
			Stock in restaurant		1230
			Outstanding Subscription		3650
			Cash & Bank Balances		10.560
		43,220			43,220

5 (a) Institute of Chartered Accountants of India has given Framework for the Presentation of Financial Statements. Different bases for measuring the elements of financial statements are;

- (i) Accrual Bases of Accounting: - Accrual basis of accounting is a method of recording transaction by which revenue; cash, assets and liabilities are reflected in the accounts for the period in which they accrue. This basis includes consideration relating to deferrals, allocations, depreciation and amortization This basis is also referred to as mercantile basis of accounting.**
- (ii) Cash Basis of Accounting: Cash basis of accounting is a method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts for the period in which actual receipts or actual payments are made.**

(b) Assumptions underlying break –earn analysis:-

- (i) All costs can be separated into fixed & variable components.**
- (ii) Variable cost per unit remains constant & total variable cost varies in direct proportion to the volume of production.**
- (iii) Total fixed cost remains constant.**
- (iv) Selling price does not change as volume change.**
- (v) There is synchronization between production & sales.**
- (vi) Productivity per worker does not change.**
- (vii) There will be no change in the general price level.**

(6) (a) (i)	Profit & Loss Adjustment A/c	Dr.	100	
	To Suspense A/c			100
(ii)	Furniture A/c	Dr.	2500	
	To Profit & Loss Adjustment A/c			2500
(iii)	Customer A/c	Dr.	176	
	To Suspense A/C			176
(iv)	Profit & Loss Adjustments A/c	Dr.	50	
	To Suspense A/c			50
(v)	Profit & Loss Adjustment A/c	Dr.	100	
	Suspense A/c	Dr.	88	
	To Supplier A/c			188

(b) The errors which don't affect the Trial balance are :

- (i) Omission of an entry in the subsidiary book**
- (ii) Wrong entry made in subsidiary book**
- (iii) Errors of Principle**

Ans. 7 (a) The main observations of the committee were:

- (i) Most of these organizations prepare their accounts on cash basis and not on accrual basis**
- (ii) In accrual accounting the Fixed Assets are to be shown net of depreciation – such depreciation being spread over their useful life and the annual amounts of depreciation is added to the operative cost as a cost for that year.**
- (iii) In order to avail income –tax exemption, the NGOs are to keep investible funds on the prescribed mode and they are refrained from lending money to other bodies.**
- (iv) The autonomous organizations are registered under various Acts like Societies Act, Trust Act or they are constituted under some Act of Parliament.**
- (v) The committee could not go through the UGC committee report**
- (vi) Some organisations have raised the issue for need for training and availability of common computer software**

(b) Various annexures to be prepared by Central Autonomies Bodies:

Balance Sheet	Annexure –A
Income & Expenditure A/c	Annexure-B
Schedules to the above	Annexure-C
Financial Statements	
Instructions & Accounting	Annexure-D
Principles	
Notes & Instruction for	Annexure-E
the schedules	
Statement of Receipts & Payments	Annexure-F

- (c)**
- | | | |
|---|----------|-----------------------------|
| Beginning equity E_1 | = | 60,000 |
| Final Equity = $E_1 + R - \text{Exp}$ | | |
| | = | 60,000+70,000-65,000 |
| | = | 65,000 |
| $E_2 + \text{Creditors}$ | = | 65,000 |
| $E_2 - 50,000$ | = | 65,000 |
| E_2 | = | 15,000 |

Solution of 2006 Paper

(1) (a) Accounting Equation : Assets= Liabilities + Capital

S No	Transactions	Assets= Liabilities + Capital
(i)	Sh. Ram Commenced business with cash	50,000 = 0 + 50,000
(ii)	Paid Rent in advance	(-)2000 + 2000
	New equations	50,000 = 0 + 50,000
(iii)	Purchased a Typewriter	(-) 7000 + 70000
	New equations	50,000 = 0 + 50,000
(iv)	Bought furniture form M/S Mohan on Credit	(+) 3000 3000 + 0
	New equations	53,000 = 3000 + 50,000
(v)	Purchased goods for cash	(-) 35,000 (+) 35,000 =0 + 0
	New equations	53,000 = 3000 + 50000
(vi)	Sold Goods for cash Rs, 40,000 (costing Rs. 30,000)	(-)30,000 (+)40,000 = 0 + 10,000
	New equations	63,000 = 3000 + 60,000
(vii)	Sold goods for Ramesh	(+)30,000 = 30,000 + 0
	New equations	93,000 = 33,000 + 60,000
(viii)	Sold Goods to Shyam for Rs, 50,000 (costing Rs 30,000)	(-) 30,000 (+) 50,000 = 0 + 20,000
	New equations	1,13,000 = 33,000 + 80,000

- (b) (i) **Revenue Recognition Principle** :- Revenue is the gross inflow of cash receivables or other considerations arising in the course of ordinary activities of an enterprise. The revenue recognition principle brings out clearly the basic principle on the basis of which revenue is recognized in Income Statement
- (ii) **Historical Cost Principle**: - According to this principle, an asset is ordinarily recorded in the accounting records at the price paid to acquire it at the time of acquisition and the cost becomes the basis for the accounts and the subsequent accounting period.
- (iii) **Matching Principle**: - According this principle, the expense incurred in an accounting period should be matched with the revenues recognized in the period.
- (iv) **Full Disclosure Principle**:- According to this principle, the financial statements should act as means of conveying and not concealing.
- (v) **Objectivity Principle**:- According to this principle, the accounting data should be definite, verifiable and free from personal bias of the accountant.

(2) (a) Journal Entries

Particulars	Dr.	Cr.
(i) Kumar's A/c To Sales A/c (rectifying entry passed for short credit – sales A/c and short debit to Kumar's A/c)	Dr. 100	100
(ii) Plant & Machinery A/c To Purchases A/c (Rectifying entry passed to correct machinery purchased charged to Purchase A/c)	Dr. 11,500	11,500
(iii) Drawing A/c To general Expenses (Rectifying entry passed to correct drawings charged to Gen. Exp A/c)	Dr. 450	450
(iv) Credit Returns Inwards A/c Rs. 150		
(v) Debit Discount Allowed A/c by Rs. 35 (As the amount has not been entered in the cash book there as a short debit in the Discount allowed A/C, therefore, the additional debit)		
(b) Non Cash vouchers are basically the transfer voucher and are prepared for non cash transactions. These voucher are prepared to records following types of transactions: Credit Purchase, Credit Sales, Returns of goods sold etc. Vouchers relating to these transactions are examples of Non-Cash Vouchers.		

(3) **Balance Sheet of Evergreen Club as on 31.03.03**

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Funds:			Fixed Assets.		
Capital Funds:			Swimming pool		40,000
Balance	60,000		Equipments		20,000
Add. Capital Grants	10,000		Furniture	8000	
Legacies	8000		Lose Deprn	<u>800</u>	7200
Entrance Fees (50%)	<u>2000</u>	80,000	Investments:		
General Fund:			General		36,000
Balance	10,000		Price Fund		10,000
Add. Excess of Income over	<u>20,000</u>	30,000	Receivables		
Expenditure			Subscription Outstanding		10,000
Building Fund:			Cash & Bank Balances		
Balance	30,000		Fixed Deposit		20,000
Add: Income	<u>2,000</u>	32,000	Current Account		10,000
Prize Fund:			Cash		800
Balance	10,000				
Add: Income	1000				
	(800)	10,200			
Current Liabilities					
Allowances outstanding		800			
Printers Bill outstanding		<u>1000</u>			
		1,54,000			<u>1,54,000</u>

(4) **Trading A/c of Chatter Sen**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Stock		40,000	By Sales	1,27,500	
To Purchases	60000		Less Returns	2000	1,25,200
Less Returns	1275	58,725	By Closing stock		35,000
To Freight In		1000			
To Wages		10,000			
To Profit & Loss A/c		50,775			
(Gross Profit		1,60,500			1,60,500
Transferred)					

Chatter Sen P & L A/C

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Freight out		1200	By Tracking A/c		50,775
To Rents Rates & Taxes		2000	By Discount Received		800
To Advertisements		2000			
To Discount Allowed		350			
To Salaries		7000			
To Bank Charges		100			
Net Profit (Transferred to Capital Account)		38,925			

Balance sheet of Chatter Sen as on 31.03.2006

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital A/c					
Opening Balance		1,13,075	Plant & Machinery		90,000
Add Net Profit		38,925	Sundry Debtors		45,000
Sundry Creditors		25,000	Cash at Bank		7000
			Closing Stock		<u>35,000</u>
		<u>1,77,000</u>			<u>1,77,000</u>

(5) (a) The Qualitative Characteristics of the Financial Statements would focus on presenting a true & fair view of the financial position & financial performances of an enterprise.

- (i) Clear:- The financial statement should clearly bring out true & fair picture of the accounts of an organization.
- (ii) Concise:- The financial statements should be concise but should also have sufficient details;
- (iii) Consistent:- the financial statements should be consistent with the accounting policies & principles applied for preparing the financial statements.
- (iv) Uniform:- The Financial statements should be uniform with respect to accounting standards.

(b) Eight elements of financial statements are :-

(i) Assets (ii) Liabilities (iii) Capital (iv) Investments (v) Revenues (vi) Expenses (vii) Profit /Loss (viii) Reserves/ Surplus

(c) The Fundamental accounting assumptions are:

- going concern
- consistency
- accrual

The major consideration while selecting accounting policies are:

- Prudence
- Substance over form, and
- Materiality

(6) (a)

	Products		
	A	B	C
Selling price /unit (Rs)	Rs. 20	Rs. 16	Rs. 10
Variable cost/unit			
Direct Material	6	4	2.00
Direct Labor	3	3	1.50
Variable over heads	2	1	1.00
Total variable cost/unit	11	8	4.5
Contribution /unit	9	8	5.50
P/V Ratio or Contribution /Sales	95%	50%	55%
Ranking with no limiting factor	III	II	I
With raw material as limiting factor			
Raw material required per unit			
Raw material cost÷ Price per Kg.	0.6 Kg	0.4 Kg	0.2 Kg
Contribution per Kg of raw material	Rs. 15	Rs. 20	Rs 27.50
Ranking when raw material is scarce	III	II	I
With Labour as Limiting Factor			
Labour hours required per unit	1/5 hr	1/5 hr	1/10 hr
Labour cost ÷ ages per horse			
Contribution per labour hr.	Rs 45	Rs. 40	Rs. 55
Ranking	II	III	I

Situation (a) : Raw martial available is 12,100 kgs. Productions plan is as follows

Product	No. of Units	Raw Material required	Contribution per unit	Total Contribution
C	20,000	4000	Rs. 5.50	Rs.1,10,000
B	12,000	4800	Rs. 8.00	Rs. 96.000
A	5,500	<u>3300</u>	Rs. 9.00	<u>Rs. 49,500</u>
	Total	12,100		Rs. 2,55,500
			Less Total Fixed costs	<u>Rs 1,38,000</u>
				Net profit Rs. 1,17,500

Total fixed costs:

A: 10,000 X 5 = Rs. 50,000

B: 12,000 X 4 = Rs. 48,000

C: 20,000 X 2 = Rs. 40,000

Rs. 1,38,000

Situation (b)

Product	No. of Units	Raw Material required	Contribution per unit	Total Contribution
C	20,000	2000	Rs 5.50	Rs 1,10,000
A	10,000	2000	Rs. 9.00	Rs. 90,000
B	5,000	<u>1000</u>	Rs. 8.00	<u>Rs. 40,000</u>
	Total	5000		Rs. 2,40,000
				Loss Fixed cost <u>1,38,00</u>
				Net Profit 1,02,000

Situation (c)

Product	No. of Units	Contribution per unit	Total Contribution
A	10,000	Rs. 9.00	90,000
B	12,000	Rs. 8.00	96,000
C	25,000	Rs 5.50	<u>1,37,500</u>
			Rs. 3,23,500
			Less F.C 1,38,000
			Advertisement Expenses : 20,000
			Net Profit <u>1,65,500</u>

(b) Flexible Budget is a budget which is designed to change as volume of output changes by recognizing different cost behavior pattern. These are schedules of costs or expenses that indicate how each cost or expense should change with changes in volume of activities. The importance of flexible budget are:

- (i) Reckons operational realities
- (ii) Streamlines control function & profit planning
- (iii) Gives balanced perspective on comparisons

(c) These costs vary in part with the volume of production and in part they are constant, whenever there is a change in volume of production and in part they are constant, whenever there is a change in volume of production. Examples are supervisory salaries, depreciation, repairs & maintenance

(7) (a) The Main recommendations of the committee were;

- (i) All the autonomous organizations should follow the common format for its accounting and presentation of accounting information.
- (ii) Within the common format of accounts, further additional information may be given/ prescribed for the central universities and other Educational Institutions and for District Rural Development Agencies.
- (iii) The Financial statements and its Schedules will provide full disclosure of organization and its accounting information.
- (iv) The Accounting will be done on the basis of accrual system of accounts and the concept of 'Going Concern' will have to be maintained.
- (v) Provision for depreciation of Fixed Assets it to be made applicable in respect of all the autonomous organization.

(b) To reflect effects of changing prices, fixed assets otherwise stated at historical costs, are revalued and substituted by revaluation normally done by competent value. Such revaluation would result into a revaluation reserve caused due to upward revision of autonomous bodies.

(c) Amounts received as grants or assistance, or retained by entity to be utilized for specific or earmarked purpose and remaining to be expended /utilized for the specific purpose for which these are intended are required to be disclosed under this head. Such funds may be received in cash or kind from Government, Government Agencies, institutions and others agencies etc. and are subject to compliance by the entity of certain stipulated terms and condition.

Solution

Trading and profit & Loss Account for the year ended 31st March 20x2

Particulars	Rs.	Particulars	Rs.
To opening Stock	100,000	By sales	9,60,000
To Purchases 9,80,000		Less Return	<u>20,000</u>
Less Returns <u>24,000</u>	4,56,000	By Closing Stock	92,000
To Wages 96,000			
Add. Outstanding <u>10,000</u>	1,06,000		
To Carriage Inward	24,000		
To Gross Profit c/d	<u>3,46,000</u>		
	10,32,000		
To Discount	10,000		<u>10,32,000</u>
To Commission	16,000	By Gross Profit b/d	3,46,000
To Int. on Bank Loan	44,000	By Discount	8,000
To Salaries 1,20,000		By Provision for Doubtful Debts.	6,000
Add. Outstanding <u>8,000</u>	1,28,000		
To Advertisement	54,000		
To Dep. On			
- Plant 45,000			
- Land & Building 15,000			
- Furniture <u>10,200</u>	70,200		
To Net Profit Transferred to capital A/c	<u>37,800</u>		
	<u>3,60,000</u>		<u>3,60,000</u>

7 (Marks)

Balance Sheet as on 31st March 20x2

Liabilities	Rs.	Assets	Rs.
Creditors	80,000	Land & Building	6,00,000
Bank Loan	4,40,000	Less: Depreciation	<u>15,000</u>
Capital	700,000	Plant & Machinery	300,000
Add: Net Profit	<u>37,800</u>	Less: Depreciation	<u>45,000</u>
	7,37,800	Furniture	68,000
Less: Drawings	<u>50,000</u>	Less: Depreciation	<u>10,200</u>
Outstanding	6,87,800	Debtors	1,80,000
Wages	10,000	Less: Provision	18,000
Salaries	8000	Stock	92,000
		Cash & Bank	74,000

	12,25,800		12,25,800
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6 (Marks)

(a) Man hours Required per unit of Z = $4 + 5 + 6 = 15$
 No of Units of Z to be made in 12000 hrs. = $\frac{12000}{15} = 800$

Variable cost per unit = Rs. $48 + 60 + 80 + 30 =$ Rs. 218

Contribution Per Unit = SP – VC = Rs. $300 - 218 =$ Rs. 82

Total Contribution (800 units X Rs. 82) = Rs. 65,600

Less Fixed Cost 50,000

Current Profit 15,600

(4 Marks)

(b) Additional cost per hours, if Components are purchased from market

(Machine hours is key factor)

Component	A	B	C
Market price per unit Rs.	64	75	110
Less: Variable cost of Making	<u>48</u>	<u>60</u>	<u>80</u>
Extra cost, if purchased	16	15	30
No of hours per units	4	5	6
Additional cost per hours (a ÷ b) Rs.	<u>4</u>	<u>3</u>	<u>5</u>

Component B as the last additional cost per hours, therefore, it is best to purchase B component

For month demand is = 800 units + 25% = 1000 units

Component C (1000 X 6 hrs) 6000

A (1000 X 9 hrs) 4000

B (Balance (400 units X 5 hrs) 2000

Total 12000

The balance of 600 units (1000-400) of B are to be purchased from the market.

(9 Marks)

(2) Income & Expenditure Account for the year Ending on 31st March 2006

Expenditure	Rs.	Incomes	Rs.
-------------	-----	---------	-----

To Salaries			By Interest Investments	22,000
Teaching Staff	12,60,000		<u>77,000 x 200,000</u>	
Adm. Staff	2,60,000	14,60,000	7,00,000	
To Stationer, Postage		1,73,000		
To Lighting		36,000	By Tuition Fees	25,10,000
To General Expense		65,000		
To Depreciation				
Building	30,000			
Furniture	30,000			
Library Books	<u>75,000</u>	1,35,000		
To Surplus		<u>6,63,000</u>		
		<u>25,32,000</u>		<u>25,32,000</u>

(6 Marks)

Balance Sheet as at 31st March, 2009

Liabilities		Rs.	Assets	Rs.
Capital Fund	15,60,000		Fixed Assets:	50,000
Add: Surplus	<u>6,63,000</u>	22,23,000	Land	
General Resave Fund		2,00,000	School Building	15,00,000
Tournament Fund			Less: Depreciation	<u>30,000</u>
Opening Balance	300,000		Furniture	300,000
Add: Interest on TFI	33,000		Less: Depreciation	<u>30,000</u>
Less: Tournament Exp	<u>30,000</u>	3,03,000	Library Books	3,75,000
Prize Fund			Less: Depreciation	<u>75,000</u>
Opening Balance	200,000		Investments:	
Add: Interest of PFI	22,000		Tournament Fund Investment	300,000
Less: Cost of Prizes Amount	<u>20,000</u>	2,02,000	Prize Fund Investment	200,000
School Hall Fund		1,50,000	General R Fund	200,000
Current Liabilities			Investment	
Salaries Payable		<u>1,75,000</u>	Current Assets:	
		32,53,000	Bank Balance	<u>4,63,000</u>
				32,53,000

(7 Marks)

(4)

In the books of Narula
JOURNAL ENETIES

Particulars	LF Dr. (Rs.)	Cr. (Rs)

(i) Suspense A/C (251x2) To Mita Bros (251-125) To P & L Adjustment A/C (Being the Amount of Purchase return to Mita Bros Rs.251 wrongly return inward book as Rs. 251 and posted to the debit of Mita Bros A/c- now rectified)	Dr. 502	126 376
(ii) Sundry Debtors A/C To Suspense A/C (760-670)	Dr. 90	90
(iii) Suspense A/c To P&L adjustment A/c	Dr. 5000	5000
(iv) Bala Ram's A/c To Sita Ram's A/c To Suspense A/c	Dr. 7600	6700 900
(v) Profit & Loss Adjustment A/c To Ms A. & Co A/c	Dr. 6770	6770
(vi) Suspense A/c To P & L Adjustment A/c	Dr. 1500	1500

(5) (a) The prominent feature pf Accounting standard & are:

- (i) Fundamental Accounting Assumptions
- Going concern
 - Consistency
 - Accrual
- 2 Marks
- (ii) Accounting Policies:
- Method of Depreciation, depletion & amortization
 - Treatment of Expenditure
 - Valuation of Inventories
 - Treatment of Goodwill
 - Valuation of investments
 - Treatment of Retirement Benefits
 - Valuation of Fixed Assets
- 3 Marks
- The Objective of the accounting polices is to present a true & fair view of the state of affairs of the enterprise.
- (iii) The major considerations while selecting accounting polices are:
- Prudence
 - Substance are form, and
 - Materiality
- 1 marks
- (b) Abnormal Amount of waste material
- Administrative over heads
 - Selling Costs
- 1 Marks
1 Marks
1 Marks

(c) (i) Money Measurement Concepts:- This concept is basically concerned with the problem of measuring items of the accounting equation all the entities of the Accounting equation is in terms of money.

2 marks

(ii) Going Concern Concept: - This concept suggests that the economic units are organized to operate over an indefinite period of time.

2 Marks

(6) (a) April 1: Cash introduced in business Rs. 15000

Cash Rs. 15,000 = Proprietor's capital A/c Rs. 15000

Asset (cash) = capital + Liabilities

15,00 = 15,000 + 0

2 Marks

April 2: Opened Bank A/c by depositing Rs. 10.000

Cash (15,000-10,000) + Bank (10,000) = capital (15,000)

Asset (cash + Bank) 15,000= capital (15,000) + Liability (0)

2 Marks

April 6: Goods purchased for Rs. 10,000 paid Rs. 5000 in cash by the proprietor as on that his stock of goods amounted to Rs. 10,000 as he paid cash Rs. 5000, cash balance was nil and liability for goods purchased was 5000.

Asset = Capital + Liability
Cash (0) + Bank (10,000) + Stock (10,000) = Capital (15000) + Liability (500)

3 Marks

6 (b) The Committee was of the opinion that a common format be attempted to cover the transactions and events of common nature, as a benchmark providing some flexibility for exceptions. As the light of this, when review it was observed that in existing financial statements all the organizations under the existing guidelines of the Government in the form of grants or loans, compile the following three sets of accounts:

- Receipt & payment Accounts,
- Income and expenditure accounts, and
- Balance sheet

Further, the committee incorporated various requirements of the Government particularly with organization to accounting of the Government assistance received by these organization. Accordingly the formats were finalized and placed in annexure A to F.

6 Marks

7 (a) **Schedule of changes in working capital**

Particulars	31 st March		Effect on working Capital	
	19 X 1	19 X 2	Increase (Rs.)	Decrease (Rs.)

A. Current Assets	4,10,000	5,60,000		
Stock on trade sundry	3,40,000	2,10,000	1,50,000	1,30,000
Debtors cash at Bank	<u>20,000</u>	<u>5000</u>		15,000
B. Current Liabilities	7,70,000	7,75,000		
Sundry creditors	6,00,000	7,85,000		1,85,000
C. Working Capital A-B	1,70,000	-10,000		
D. Decrease in working capital		1,80,000	1,80,000	
	1,70,000	1,70,000	3,30,000	3,30,000

5 Marks

Funds Flow statement for the year ended 31.3.19x2

Sources	Rs.	Applications	Rs.
Issue of shares against stock	20,000	Purchase of Fixed Assets for	2,35,000
Raising of Loan	1,50,000	cash funds used in operations	1,15,000
Decrease in working capital	1,80,000	financing & inverting activities	
Financing & Investing Activities		not affecting the working as per	
not affecting the working capital as		contra:	
per contra:		Purchase of Fixed assets for	25,000
Issue of shares against Fixed Assets	25,000	issue of shares	
	<u>3,75,000</u>		<u>3,75,000</u>

5 Marks

$$\begin{aligned}
 (7) \text{ (b) B E P (in units) } &= \frac{\text{Fixed cost}}{\text{Contribution per unit}} \\
 &= \frac{3000}{1500} \\
 \text{Contribution per unit} &= \text{Rs. 2} \\
 \text{Variable cost} &= \text{S. P.} - \text{Contribution} \\
 &= 10 - 2 = \text{Rs. 8}
 \end{aligned}$$

3 Marks

MODEL ANSWERS

Ans (5a). Accrual Basis:

In order to meet their objectives, financial statements are prepared on The accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements prepared of the periods to which they relate. Financial statements prepared on the accrual basis informs users not only of past events involving the payments and receipt of cash but also of obligations to pay cash in the future and resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that in most useful to users in making economic decisions.

Going Concern:

The financial statements are normally prepared o the assumption that an enterprise is going concern and will continue in operation for the foreseeable future. Hence, it is assumes that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so the basis used is disclosed.

Consistency:

In order to achieve comparability of the financial statements of an enterprise through time, the accounting policies are followed consistently from one period to another; a change in an accounting policy is made only in certain exceptional circumstances.

Ans. 5 (b): The objective of financial statements is to provide information about

The financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions.

Financial statements prepared for the purpose meet the common needs of most users. However, financial statements do not provide all the information that users may need to make economic decisions since (a) they largely portray the financial effects of past events, and (b) do not necessarily provide non-financial information.

Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of managements do so in order that they may make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management.

Ans. 5 © (i) **Recognition of Income:**

Income is recognized in the statement of profit and loss when an increase in future economic benefits related to an increase in an asset or a decrease of liability that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities (for example, the net increase in assets arising on a sale of goods or services or the decrease in liabilities arising from the waiver of a debt payable)

The procedures normally adopted in practice for recognizing income, for example, the requirement that revenue should be earned, are applications of the recognition criteria in this Framework, Such procedures are generally directed at restricting the recognition as income to those items that can be measured reliably and have a sufficient degree of certainty.

(ii) **Recognition of Liabilities:**

A liability is recognized in the balance sheet when it is probable that the outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. In practice, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not yet received) are generally not recognized as liabilities in the financial statements. However, such obligations may meet the definition of liabilities and, provided the recognition criteria are met in the particular circumstances, may qualify for recognition. In such circumstances, recognition of liabilities entails recognition of related assets or expenses.

(iii) Recognition of Assets.

An asset is not recognized in the balance sheet when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the enterprise and the asset has a cost value that can be measured reliably.

An asset is not recognized in the balance sheet when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the enterprise beyond the current accounting period. Instead, such a transaction results in the recognition in the statement of profit and loss. This treatment does not imply either that the intention of management in incurring expenditure was other than to generate future economic benefits for the enterprise or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the enterprise beyond the current accounting period is insufficient to warrant the recognition of an asset.

Ans. 6: INSTRUCTIONS AND ACCOUNTING PRINCIPLES.

- 1) The financial statement of non-profit and other similar organizations (viz, Balance sheet and Income and Expenditure Account) shall be prepared on accrual basis; and shall be in the form suggested, or near thereto as possible.

If the information required to be given under any of the items or sub-items in the Form cannot be conveniently included in the Balance sheet or the Income and Expenditure Account itself, as the case may be, it can be furnished in a separate Schedule or Schedules to be annexed to and forming part of the Balance Sheet

or the Income and Expenditure Account. This is recommended where items are numerous.

- 2) A statement of all significant accounting policies adopted in the preparation of the Balance Sheet and the Income and Expenditure Account shall be included in the financial statements, and the significant Accounting Policies should be disclosed in one place. Accounting policies refer to the specific accounting principles and the method of applying those principles adopted by the Entity in the preparation of the financial statements. Where any of the accounting policies is not in conformity with accounting standards, and the effect of departures from accounting standards is material, the particulars of the departure shall be disclosed, together with the reasons therefor and the financial effect thereof, except where such effect is not ascertainable.
- 3) Accounting policies shall be applied consistently from one financial year to the next. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods, shall be disclosed. In case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change, shall also be disclosed to the extent ascertainable. Where such amount is not ascertainable, the fact shall be disclosed.
- 4) The accounting treatment and presentation in the Balance Sheet and the Income and Expenditure Account.
- 5) In determining the accounting treatment and manner of disclosure of an item in the Balance Sheet and/or the Income and Expenditure Account, due consideration shall be given to the concept of materiality.
- 6) Provision shall be made for all known liabilities and losses even though the amount cannot be determined with substantial accuracy (and the amount of provision represents only a best estimate in the light of available information).

'Provision' means any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by way of providing for known liability, the amount of which cannot be determined with substantial accuracy.

Provision shall be made for contingent loss if:

- a) it is probable that future events will confirm that, after taking into account any related probable recovery an asset has been impaired or a liability has been incurred at the balance sheet date, and
- b) a reasonable estimate of the amount of the resulting loss can be made.

If either of the above conditions is met, the existence of the contingent loss shall be disclosed by way of a note to the Income and Expenditure account, unless the possibility of the loss is remote.

7) When any amount written off or retained by way of providing for depreciation, renewals or diminution in the value of assets or retained by way of providing for any known liability is in excess of the amount, which is considered reasonably necessary for the purpose, the excess shall be treated as a reserve and not as a provision.

8) Revenue shall not be recognized unless;

- (a) the related performance has been achieved;
- (b) no significant uncertainty exists regarding the amount of the consideration; and
- (c) it is not unreasonable to expect realization and ultimate collection.

(9) Separate disclosure shall be made in the Income and Expenditure Account in respect of:

- (a) “prior period” items, which comprise material items of income or expense which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.
- (b) “ Extra- ordinary” items, which are material items of income or expenses that arise form events or transactions that are clearly distinct from the ordinary activates of the entity and, therefore, are not expected to recur frequently.
- (c) Any item under the head “ Miscellaneous Income” which exceeds 1 per cent of the total turnover/gross income of entity or 50,000/- which ever is higher, This shall be show as a separate and distinct item against an appropriate account head in the Income and Expenditure account.