

PAPER – 1 : ACCOUNTING

QUESTIONS

1. A trader commenced business on January 1, 2007 establishing a Head Office and one Branch. Purchases were made exclusively by the Head Office where the goods were processed before sales. There was no loss or wastage in processing. Only processed goods received from the Head Office were handled by the Branch, and these were charged to the Branch at processed cost plus 10%.

All sales, whether by Head Office or the Branch, were at uniform gross profit of 25% on the cost after processing. From the following information, prepare the Profit and Loss Account for the year and Balance Sheet as on December 31, 2007 :

	Rs.		Rs.
Capital	2,20,000	Goods sent to Branch	6,51,200
Drawings	25,000	Selling and General expenses	2,41,000
Purchases	19,93,350	Debtors	3,22,000
Cost of Processing	34,650	Creditors	5,85,750
Sales – HO	14,20,000	Branch Current A/c	2,05,550
Sales – Branch	6,40,000	Balance at Bank	1,96,000

The following information is relevant :

- (a) Stock taking at Branch disclosed a shortage of Rs. 5,000 (at selling price).
 - (b) Goods charged by Head Office to Branch during the year include Rs. 11,000 not received by Branch during the year. A remittance of Rs. 43,750 from Branch to Head Office was not received before January 2008. The necessary adjustments in respect of these items are to be made in the Head Office Books.
 - (c) Cost of unprocessed goods at Head Office on December 31, 2007 was Rs. 1,80,000.
2. A firm had two departments, cloth and readymade clothes. The readymade clothes were made by the firm itself out of cloth supplied by the cloth department at its usual selling price. From the following figures, prepare departmental Trading and Profit and Loss Accounts for the year ended 31st March, 2007 :

	Cloth Department Rs.	Readymade Clothes Department Rs.
Opening Stock on 1 st April, 2006	3,00,000	50,000
Purchases	20,00,000	15,000
Sales	22,00,000	4,50,000
Transfer to Readymade Clothes Department	3,00,000	--
Expenses - Manufacturing	--	60,000
Selling	20,000	6,000
Stock on 31 st March, 2007	2,00,000	60,000

The stocks in the readymade clothes department may be considered as consisting of 75% cloth and 25% other expenses. The Cloth Department earned gross profit at the rate of 15% in 2005-06. General Expenses of the business as a whole came to Rs. 1,10,000.

3. The following information is available in the books of X Bank Limited as on 31st March, 2007:

	Rs.
Bills discounted	1,37,05,000
Rebate on Bills discounted (as on 1.4.2006)	2,21,600
Discount received	10,56,650

Details of bills discounted are as follows:

Value of bill (Rs.)	Due date	Rate of Discount
18,25,000	5.6.2007	12%
50,00,000	12.6.2007	12%
28,20,000	25.6.2007	14%
40,60,000	6.7.2007	16%

Calculate the rebate on bills discounted as on 31.3.2007 and give necessary Journal Entries.

4. Mr. X purchased 500 equity shares of Rs. 100 each in Omega Co. Ltd. for Rs. 62,500 inclusive of brokerage and stamp duty. Some years later the company resolved to capitalize its profits and to issue to the holders of equity shares, one equity bonus share for every share held by them. Prior to capitalisation, the shares of Omega Co. Ltd. were quoted at Rs. 175 per share. After the capitalisation, the shares were quoted at Rs. 92.50 per share. Mr. X. sold the bonus shares and received Rs. 90 per share.

Prepare the Investment Account in X's books on average cost basis.

5. Khushi Udyog operates a general business and the firm's Trial Balance prepared at 31.12.2007 was as follows:

Particulars	Dr. (Rs.)	Cr. (Rs.)	Particulars	Dr. (Rs.)	Cr. (Rs.)
Purchases: Cars	83,500		Debtors and Creditors	14,000	10,800
Petrol	27,500		Bank	4,700	
Spare parts	4,000		Cash	2,000	
Capital		62,000	Freehold Garage Premises	42,000	
Stock on 1.1.2007:			Rates and insurance	1,900	
Cars	9,000				
Petrol	2,800		Sales: Cars		1,20,000
Spare parts	400		Petrol		32,000
Workshop wages	10,200		Spare parts		4,700
Plant and Equipment	7,000		Repairs		14,700
Car salesmen's salaries	7,700		Petrol pump attendant's wages	3,100	
General expenses	6,300		Goodwill	12,600	
Office wages	5,500				
				<u>2,44,200</u>	<u>2,44,200</u>

Other information is as follows:

- (1) The plant and equipment, all of which is used for repair work, is to be depreciated by 10%.
- (2) Stock at 31.12.2007 were –
Cars Rs. 7,400; petrol Rs. 1,600; Spare parts Rs. 700.
- (3) No entries have been made for the following:
 - (i) Petrol used in demonstration runs cost Rs. 200;
 - (ii) Parts used in repairs jobs cost Rs. 750;
 - (iii) Repairs on cars subsequently sold were charged out Rs. 2,400.
- (4) Expenses which cannot be specifically allocated to one activity are to be apportioned:
60% to Cars; 10% to Petrol; 10% to Spare parts; 20% to Repairs.
- (5) General expenses accrued amount to Rs. 300, and a provision is to be made of Rs. 500 for car salesmen's commission.

Prepare Trading and Profit and Loss Account, preferably in columnar form, to show clearly the profit or loss in each of the four main areas of business activity for the year ended 31.12.2007.

Also prepare the Balance Sheet at that date.

6. MNG Fertilizers presents the following Balance Sheets as at 31.3.2007 and 31.3.2006. You are required to prepare cash flow statement.

Balance Sheet (Rs. in thousand)	31.3.2007	31.3.2006
Equity share capital	8,500	7,000
General Reserve	3,800	4,000
Profit and Loss Account	0	250
Share Premium Account	<u>1,500</u>	<u>750</u>
Shareholders' Funds	13,800	12,000
Secured Loans	4,800	5,000
Unsecured Loans	<u>5,350</u>	<u>4,000</u>
Loan Funds	<u>10,150</u>	<u>9,000</u>
Sources	<u>23,950</u>	<u>21,000</u>
Fixed Assets		
Gross Block	22,400	21,000
Less: Accumulated Depreciation	<u>3,450</u>	<u>3,200</u>
Net Block	18,950	17,800
Capital work-in-progress	1,860	0
Investments	1,650	2,320
Current Assets, Loans and Advances		
Inventories	2,510	2,600
Debtors	1,090	1,200
Cash & Bank Balances	120	280
Loans	1,700	200
Advance Tax	<u>0</u>	<u>500</u>
(A)	<u>5,420</u>	<u>4,780</u>

Less: Creditors	1,050	1,200
Outstanding expenses	30	0
Tax Provision	0	500
Proposed Dividend	<u>3,400</u>	<u>2,800</u>
(B)	<u>4,480</u>	<u>4,500</u>
Net Current Assets (A) – (B)	940	280
Miscellaneous Expenditure	<u>550</u>	<u>600</u>
Applications	<u>23,950</u>	<u>21,000</u>

Other information:

- (1) Fixed assets costing Rs. 4,00,000, accumulated depreciation Rs. 3,00,000 were sold for Rs.1,50,000.
 - (2) Actual tax liability for 2005-2006 was Rs. 5,00,000.
 - (3) Loans represent long term loans given to other companies.
 - (4) Interest on loan funds for 2006-2007 was Rs. 14,21,000 and interest and dividend income were Rs.4,02,000.
 - (5) Investments costing Rs. 20,00,000 were sold for Rs. 25,00,000.
7. Goods amounting to Rs. 1,55,997 at hire purchase price were sold on hire purchase system. The hire-vendor normally sells goods at retail price showing a gross profit of 30% on that price. But when goods are sold on hire purchase, he adds 5 percent to retail price to cover additional risk. During the year goods costing Rs. 10,500 were repossessed for non-receipt of any payment on them. These goods were valued at cost on 31st March. Cash received from customers amounted to Rs. 63,000.

Prepare Hire Purchase Trading Account for the year ending on 31st March, 2007 so that profits to be taken into account is such proportion of the profits as instalments due bear to the total goods sold on hire-purchase.

8. X and Y are partners sharing Profits and Losses in the ratio of 3:2. On 30th September, 2006 they admitted Z as a partner. The new profit sharing ratio agreed was 2:2:1.

At the time of admission Z brought in a fixture valued at Rs. 6,000 and a machinery worth Rs. 24,000. No accounting entry was passed for the fixture brought in by partner Z in the books of the firm.

Also at the time of admission the valuation of goodwill was made. The value of goodwill of X and Y was decided at Rs. 40,000 and value of goodwill of partner Z was fixed at Rs. 20,000. No effect was given to the goodwill value in the books of the firm.

On 31.3.2007, it was decided that partner X would retire and the other partners viz., Y and Z would continue the business of the firm by converting it into a company called YZ Ltd., with equal shareholding in the Company.

The partners agreed as below:

- (i) The goodwill of the firm shall be fixed at Rs. 80,000. Necessary effect for goodwill value not recorded earlier shall be given. The present goodwill value being Rs. 80,000 shall be reflected in the books of the company.
- (ii) All the Assets and Liabilities of the firm shall be taken over by the company.
- (iii) Partner X would take Motor car of the firm at a value of Rs. 7,400.
- (iv) A plant owned by the firm is sold for Rs. 6,000.
- (v) The Profit of the firm upto 30.9.2006 was Rs. 44,000.

- (vi) Partner X agreed to leave Rs. 90,000 as loan with the firm in return for 12% interest per annum.

Following is the Trial Balance of the firm as on 31.3.2007:

Particulars	Dr. Rs.	Cr. Rs.
Capital Account:		
X	-	80,000
Y	-	50,000
Z	-	24,000
Drawings Account:		
X	22,000	-
Y	20,000	-
Z	9,600	-
Sundry Debtors	70,000	-
Sundry Creditors	-	32,000
Plant (Book value of plant sold Rs. 8,000)	46,000	-
Fixtures	14,000	-
Stock	24,000	-
Motor Car	5,400	-
Cash at Bank	34,600	-
Profit and Loss A/c (for the year)		59,600
	<u>2,45,600</u>	<u>2,45,600</u>

You are required to prepare:

- (i) Profit and Loss Appropriation Account.
 - (ii) Partners' Capital Accounts.
 - (iii) Balance Sheet of YZ Ltd. after conversion.
9. A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2007.

	(Rs. in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by your institute.

10. Shivaji Ltd. purchased Fixed assets worth Rs.90,00,000 on 1st April, 2002. The life of the assets is 10 years and they are to be depreciated on straight line basis. The assets were revalued on 1st April, 2004 when 50% of the assets was assessed at 10% less than the book value, and the remaining assets were revalued at 15% higher than book value. The assets were ultimately sold on 1.4.2006 for Rs.54,80,000. Excess depreciation on revaluation, if any, should be charged to Revaluation Reserve.

Show Fixed Assets A/c, Depreciation A/c and Revaluation Reserve A/c, supported by Workings wherever necessary.

11. Electric Supply Ltd. rebuilt and re-equipped one of their Mains at a Cash Cost of Rs. 40,00,000. The old Mains thus superseded cost Rs. 15,00,000. The capacity of the new Main is double that of the old Main.

Rs. 70,000 was realised from sale of old materials. Four old motors valued at Rs. 2,00,000 salvaged from the old Main were used in the reconstruction. The cost of Labour and Materials is respectively 30% and 25% higher now than when the old Main was built. The proportion of Labour to Materials in the Main then and now is 2 : 3.

Show the Journal entries for recording the above transactions, if accounts are maintained under Double Account System.

12. The undermentioned balances (all figures in lakhs) form part of the Trial Balance of the Everybody Assurance Co. Ltd., as on 31st March, 2007:-

Amount of Life Assurance Fund at the beginning of the year Rs.14,70,562; claims by death Rs.76,980; claims by maturity Rs.56,420; premiums Rs.2,10,572; expenses of management Rs.19,890; commission Rs.26,541; consideration for annuities granted Rs.10,712; interests, dividends and rents Rs.52,461; income tax paid on profits Rs.3,060; surrenders Rs.21,860; annuities Rs.29,420; bonus paid in cash Rs.9,450; bonus paid in reduction of premiums Rs.2,500; preliminary expenses balance Rs.600; claims admitted but not paid at the end of year Rs.10,034; annuities due but not paid Rs.2,380; capital paid up Rs.14,00,000; Government securities Rs.24,90,890; Sundry Fixed Assets Rs.4,19,110.

Prepare Revenue Account and the Balance Sheet after taking into account the following:-

Claims covered under reinsurance	Rs.10,000 lakhs
Further claims intimated	Rs.8,000 lakhs
Further bonus utilized in reduction of premium	Rs.1,500 lakhs
Interest Accrued	Rs.15,400 lakhs
Premiums Outstanding	Rs.7,400 lakhs.

13. The balance sheet of Overcome Ltd. before reconstruction is:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Authorised and issued capital		Building at cost less	
15,000 Equity shares of Rs.50 each	7,50,000	Depreciation	4,00,000
12,000 7% Preference shares of Rs. 50 each	6,00,000	Plant at cost less	
(Note: Preference dividend is in arrear for five years)		Depreciation	2,68,000
		Trademarks and goodwill at cost	3,18,000
Loan	5,73,000	Stock	4,00,000
Sundry creditors	2,07,000	Debtors	3,28,000
Other Liabilities	35,000	Preliminary expenses	11,000
		Profit and loss A/c	4,40,000
	<u>21,65,000</u>		<u>21,65,000</u>

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both classes of shareholders. A summary of the scheme is as follows:

- (a) The equity shareholders have agreed that their Rs. 50 shares should be reduced to Rs. 2.50 by cancellation of Rs. 47.50 per share. They have also agreed to subscribe for three new equity shares of Rs. 2.50 each for each equity share held.

- (b) The preference shareholders have agreed to cancel the arrears of dividends and to accept for each Rs. 50 share, 4 new 5% preference shares of Rs. 10 each, plus 6 new equity shares of Rs. 2.50 each, all credited as fully paid.
- (c) Lenders to the company for Rs. 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of Rs. 10 each and 12,000 new equity share of Rs. 2.50 each.
- (d) The directors have agreed to subscribe in cash for 40,000 new equity shares of Rs. 2.50 each, in addition to any shares to be subscribed by them under (a) above.
- (e) Of the cash received by the issue of new shares, Rs. 2,00,000 is to be used to reduce the loan due by the company.
- (f) The equity share capital cancelled is to be applied:
- to write off the preliminary expenses;
 - to write off the debit balance in the Profit and loss A/c; and
 - to write off Rs. 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of company after reconstruction. The nominal capital as reduced is to be increased to the old figures of Rs. 6,50,000 for preference share capital and Rs. 7,50,000 for equity share capital.

14. Hurry-up Company Limited was incorporated on 1st April to take over as from 1st January in the same year the existing business of Busy Brothers. Under the takeover agreement all profits made from 1st January belongs to the company. The purchase consideration was Rs.7,00,000. The vendors received half of it in cash on 1st July in the same year together with interest at 10 percent per annum. For other half of the purchase consideration, they were allotted 3,500 fully paid up shares of Rs.100 each in the Company. The following balances appeared in the Company's Ledger as at 31st December:

	Rs.		Rs.
Share Capital: 4,500 shares of Rs.100 each fully paid (including vendors' shares)	4,50,000	Preliminary Expenses (These are to be fully written off)	8,000
Bank Overdraft	1,65,000	Salaries and Wages	48,000
Sundry Creditors	65,000	Rent Received	13,000
Fixed Deposits Received	35,000	Rates and Taxes	7,000
Freehold Land at Cost	50,000	Repairs to Building	3,000
Building at Cost	1,30,000	Miscellaneous Expenses	22,000
Furniture and Fixtures at Cost	15,000	Directors' Fees	2,400
Transport Vehicle at Cost	35,000	Interest to Vendors	17,500
Stock-in-trade on 1 st January	4,20,000	Purchases	7,70,000
Book Debts	95,000	Sales	9,10,000
Cash on Hand	12,000	Goodwill	3,100

The stock in-trade as at 31st December amounted to Rs.4,80,000.

Bad debts amounting to Rs.1,000 out of which Rs.500 related to book debts taken over by the Company, have to be written off and a provision of Rs.5,000 to be made for doubtful debtors as at 31st December.

Depreciation has to be written off on Building at 5%; Furniture and Fixtures at 10% and Transport Vehicles at 20%.

You are required to prepare (a) a Profit and Loss Account for the period from 1st January to 31st December and to compute the profit prior to incorporation. For the purpose of determining the profit prior to incorporation you should assume the turnover to be spread evenly over the year and (b) Balance Sheet as on 31st December.

15. X Ltd. and Y Ltd. were amalgamated on and from 1st April, 2007 and formed a new company Z Ltd. to takeover the business of X Ltd. and Y Ltd. The Balance Sheets of X Ltd. and Y Ltd., as on 31st March, 2007 are as follows:

(Rs. in crores)					
Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Share Capital:			Land and Buildings	38	25
Equity share of Rs.10 each	50	45	Plant and Machinery	24	17
10% Preference shares of Rs.100 each	20	14	Investments	10	6
Revaluation Reserve	10	6	Stock	22	15
General Reserve	12	8	Sundry Debtors	25	20
Investment Allowance	5	4	Bills Receivable	5	4
Reserve			Cash at Bank	16	13
Profit & Loss Account	8	6			
15% Debentures of Rs.100 each (Secured)	4	5			
Sundry Creditors	19	7			
Bills Payable	<u>12</u>	<u>5</u>			
	<u>140</u>	<u>100</u>		<u>140</u>	<u>100</u>

Additional Information:

- (1) Z Ltd. will issue 6 equity shares for 10 equity shares of X Ltd. and 2 equity shares for 5 equity shares of B Ltd. The shares are issued @ Rs.30 each having a face value of Rs.10 per share.
- (2) Preference shareholders of two companies are issued equivalent number of 15% preference shares of Z Ltd. at a price of Rs.120 per share (face value Rs.100).
- (3) 15% Debentureholders of X Ltd. and Y Ltd. are discharged by Z Ltd. issuing such number of its 18% Debentures of Rs.100 each so as to maintain the same amount of interest.
- (4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of Z Ltd. after amalgamation. The amalgamation took place in the nature of purchase.

16. Liquidation of YZ Ltd. commenced on 2nd April, 2007. Certain creditors could not receive payments out of the realisation of assets and out of the contributions from A list contributories. The following are the details of certain transfers which took place in 2006 and 2007:

Shareholders	No. of Shares transferred	Date of Ceasing to be a member	Creditors remaining unpaid and outstanding on the date of such transfer
A	2,000	1st March, 2006	Rs. 5,000
P	1,500	1st May, 2006	Rs. 3,300
Q	1,000	1st October, 2006	Rs. 4,300
R	500	1st November, 2006	Rs. 4,600
S	300	1st February, 2007	Rs. 6,000

All the shares were of Rs. 10 each, Rs. 8 per share paid up. Show the amount to be realised from the various persons listed above ignoring expenses and remuneration to liquidator etc.

17. A joint stock company resolved to issue 10 lakh equity shares of Rs. 10 each at a premium of Re. 1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows :

X - 30,000 shares, Y - 20,000 shares and Z - 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows:

X - 1,19,500 shares, Y - 57,500 shares and Z - 10,500 shares.

Unmarked applications totalled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to :

- (i) Prepare a statement calculating underwriters' liability for shares other than shares underwritten firm.
 - (ii) Pass journal entries for all the transactions including cash transactions.
18. Mr. X runs a retail business. Suddenly he finds on 31.3.2007 that his Cash and Bank balances have reduced considerably. He provides you the following information:

(i) Balances	31.3.2006	31.3.2007
	Rs.	Rs.
Sundry Debtors	35,400	58,800
Sundry Creditors	84,400	22,400
Cash at Bank	1,08,400	2,500
Cash in Hand	10,400	500
Rent (Outstanding for one month)	2,400	3,000
Stock	11,400	20,000
Electricity and Telephone bills-outstanding	--	6,400

(ii) Bank Pass-book reveals the following:	Rs.
Total Deposits	10,34,000
Withdrawals:	
Creditors	8,90,000
Professional charges	34,000
Furnitures and Fixtures (acquired on 1.10.06)	54,000
Proprietor's drawings	1,61,900

- (iii) Rent has been increased from January, 2007.
- (iv) Mr. X deposited all cash sales and collections from debtors after meeting wages, shop expenses, rent, electricity and telephone charges.
- (v) Mr. X made all purchases on credit.
- (vi) His credit sales during the year amounts to Rs.9,00,000.

(vii) He incurred Rs.6,500 per month towards wages.

(viii) He incurred following expenses:

(a) Electricity and telephone charges Rs.24,000 (paid)

(b) Shop expenses Rs.18,000 (paid).

(ix) Charge depreciation on furniture and fixtures @10% p.a.

Finalise the accounts of Mr. X and compute his profit for the year ended 31.3.2007. Prepare his statement of affairs and reconcile the profit and capital balance.

19. Mohan of Agra commenced business on 1st April, 2002 with a capital of Rs. 33,000. He drew on the average Rs.3,000 per year. His profits for 3 years were Rs. 7,000; he did not prepare proper accounts for the next two years. On 31st March, 2007 an adjudication order was made against him. He submits the following information from which his Statement of Affairs and Deficiency Account are to be prepared:

	Rs.
Sundry Creditors	20,000
Mortgage on Freehold Property	4,000
Creditors secured by Life Policy estimated to be worth Rs. 4,000	12,000
Landlord – 2 months' rent	200
Clerk's salary for two months	200
Municipal taxes owing	180
Mrs. Mohan's Loan	3,000
Bills Receivable discounted and expected to rank	3,200
Freehold Property (estimated to realise Rs. 20,000)	40,000
Plant and Machinery, cost Rs. 20,000 less depreciation written off Rs. 6,000, estimated to realise Rs. 2,000	
Second mortgage on Freehold Property	12,000
Book Debts, good Rs. 6,000; doubtful Rs. 2,000, estimated to realise Rs. 600; bad Rs. 500	
Fixtures and Fittings cost Rs. 800, estimated to realise	350
Stock in Trade, cost Rs. 8,000 estimated to realise	5,550
Cash in Hand	80

The loan by Mrs. Mohan is out of moneys given to her by Mohan about 5 years ago.

20. (a) Whether government accounting is totally different from commercial accounting? State your opinion with reasons.
- (b) Explain, why accounting in Agricultural operation is not popular. Mention a few peculiar features of Farm Accounting.
21. (a) State the guidelines of SEBI regarding issue of convertible debentures for disclosure and investor protection.
- (b) Explain the order in which accounts are settled under piecemeal distribution of cash.
22. Explain:
- (a) Reasonable Return in respect of Electricity Supply Companies
- (b) Foreign Branches.
- (c) Conditions to be fulfilled by a joint stock company for issue of sweat equity shares.

23. Theory questions based on Accounting Standards

- (a) Classify the following as "Timing Difference" and "Permanent Difference".
 - (i) Interest on loans payable to Scheduled Banks not paid during current year but accounted as an expenditure in the books.
 - (ii) Difference in Depreciation rates as per Income Tax and as per Books.
 - (iii) Unabsorbed losses.
 - (iv) Revaluation Reserve.
- (b) P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.
How would you assess the situation from the viewpoint of AS -18 on Related Party Disclosures?
- (c) List the criteria to be applied for rating an enterprise as Level-I enterprise for the purpose of Compliance of Accounting Standards in India.
- (d) Explain the objective of AS 27.
- (e) Can internally generated brands, publishing titles and other similar items be recognized as intangible assets?
- (f) What are the basic criteria for classification of leases into Operating Lease and Finance Lease.
- (g) If Potential Equity Shares were not considered in the previous year because they were anti-dilutive, can these be considered in the current period if they are dilutive? If yes, is the prior period EPS required to be restated?
- (h) How are intra enterprise transactions treated when preparing Segment Reports?
- (i) How will you present the government grants related to specific fixed assets in the books of accounts?
- (j) What do you understand by "Recognition"? Is there any change in the manner of recognition and measurement of items while reporting an interim statement?
- (k) How refund of revenue grant received from the Government is disclosed in the Financial Statements?

24. Problems based on practical application of Accounting Standards

- (a) Modern Silk Mills Pvt. Ltd. leased its looms to Minar Exports Pvt. Ltd. for a period of five years from 1st April, 2005 for a lumpsum lease of Rs. 10,50,000 payable in full in advance. The lessor agreed to incur the expenditure for Repairs and Maintenance of the looms which were as follows :

Year	Repairs & Maintenance Expenditure
2005 – 06	Rs. 4,700
2006 - 07	Rs. 5,200

The WDV of the looms on 01.04.2005 was Rs. 4,60,000 and depreciation @ 33 1/3 % was to be charged.

You are required to pass journal entries and open Lease Rent A/c in the books of the lessor. Show relevant entries in the P & L A/c and the Balance Sheet for the years 2005-06 and 2006-07 if the lessor closes its account on 31st March every year.

- (b) From the following information relating to Y Ltd. Calculate Earnings Per Share (EPS):

	Rs. in Crores
Profit before V.R.S. Payments but after depreciation	75.00
Depreciation	10.00
VRS payments	32.10
Provision for taxation	10.00
Fringe benefit tax	5.00
Paid up Share Capital (Shares of Rs. 10 each fully Paid)	93.00

- (c) A Limited company charged depreciation on its assets on the basis of W.D.V. method from the date of assets coming to use till date amounts to Rs. 32.23 lakhs. Now the company decides to switch over to Straight Line method of providing for depreciation. The amount of depreciation computed on the basis of S.L.M. from the date of assets coming to use till the date of change of method amounts to Rs. 20 lakhs.

Discuss as per AS 6, when such changes in method can be adopted by the company and what would be the accounting treatment and disclosure requirement.

- (d) X Limited has recognized Rs. 10 lakhs, on accrual basis, income from dividend on units of mutual funds of the face value of Rs. 50 lakhs held by it as at the end of the financial year 31st March, 2006. The dividends on mutual funds were declared at the rate of 20% on 15th June, 2006. The dividend was proposed on 10th April, 2006 by the declaring company. Whether the treatment is as per the relevant Accounting Standard? You are asked to answer with reference to provisions of Accounting Standard.
- (e) Wise Corp. is dealing in seasonal products. The quarterly sales pattern of the product is given below:

Quarter I	II	III	IV
Ending 31st March	30th June	30th September	31st December
15%	15%	50%	25%

For the First quarter ending 31st March, 2007, Wise Corp. gives you the following information:

	Rs. crores
Sales	50
Salary and other expenses	30
Advertisement expenses (routine)	02
Administrative and selling expenses	08

While preparing interim financial report for the first quarter, the company wants to defer Rs. 21 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore third quarter should be debited by higher expenditure, considering the seasonal nature of business. The expenditures are uniform throughout all quarters.

Calculate the result of first quarter as per AS 25 and comment on the company's view.

- (f) Soft and Hardwares Ltd. are finalizing their annual accounts as on 31st March. A few elements in their Profit and loss Account are furnished below:

	Amount Rs. in lakhs
(a) Cost of goods sold (includes loss on sale of assets)	2,740
(b) Profit on sale of property	200
(c) PBT	300

Some of the assets, revalued in earlier years, have been sold by the company now, for Rs. 100 (WDV Rs. 250). Revaluation reserve corresponding to these assets stood at Rs. 200 lacs, now brought to Profit and Loss Account.

Comment on this treatment, and advise action, if any, with reference to relevant accounting standard.

- (g) Mr. Raj a relative of key Management personnel received remuneration of Rs. 2,50,000 for his services in the company for the period from 1.4.2006 to 30.6.2006. On 1.7.2006 he left the service.

Should the relative be identified as at the closing date i.e. on 31.3.2007 for the purposes of AS 18?

- (h) XYZ is an export oriented unit and was enjoying tax holiday upto 31.3.2002. No provision for deferred tax liability was made in accounts for the year ended 31.3.2002. While finalising the accounts for the year ended 31.3.2003, the Accountant says that the entire deferred tax liability upto 31.3.2002 and current year deferred tax liability should be routed through Profit and Loss Account as the relevant Accounting Standard has already become mandatory from 1.4.2001. Do you agree?
- (i) SCL Ltd. sells agriculture products to dealers. One of the condition of sale is that interest is payable at the rate of 2% p.m., for delayed payments. Percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2006-2007 the company wants to recognise the entire interest receivable. Do you agree?
- (j) During 2006, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (Rs).
Completion of detailed program and design	25,000
Coding and Testing	20,000
Other coding costs	42,000
Testing costs	12,000
Product masters for training materials	13,000
Duplication of computer software and training materials, from product masters (2,000 units)	40,000
Packing the product (1,000 units)	11,000
What amount should be capitalized as software costs in the books of the company, on Balance Sheet date?	

SUGGESTED ANSWERS/HINTS

1. Trading Account for the year ended on 31st December, 2007

Dr.			Cr.		
Particulars	HO	Branch	Particulars	HO	Branch
To Purchases	19,93,350	-	By Sales	14,20,000	6,40,000
To Goods received from Head Office (W.N.2)	--	6,40,200	By Goods sent to Branch	6,51,200	--
To Cost of Processing	34,650		By Shortage of Goods (W. N. 2)	--	4,400
To Gross Profit	3,43,200	76,800			

		By Closing Stock		
		Processed	1,20,000	72,600
		(W. N. 1 & 2)		
		Unprocessed	<u>1,80,000</u>	
<u>23,71,200</u>	<u>7,17,000</u>		<u>23,71,200</u>	<u>7,17,000</u>

Profit & Loss A/c for the year ended on 31st December, 2007

Dr.			Cr.		
Particulars	HO	Branch	Particulars	HO	Branch
To Selling Expenses	2,41,000	-	By Gross Profit	3,43,200	76,800
To Shortage of stock		4,400			
To Stock Reserve					
On goods on transit	1,000				
$\left(11,000 \times \frac{10}{110}\right)$					
On Branch Stock	6,600				
$\left(72,600 \times \frac{10}{110}\right)$					
To Net Profit	94,600	72,400			
	<u>3,43,200</u>	<u>76,800</u>		<u>3,43,200</u>	<u>76,800</u>

Balance Sheet as at 31st December, 2007

Liabilities		Rs.	Assets		Rs.
Capital Account			Stock		
Opening Balance	2,20,000		HO : Unprocessed	1,80,000	
Add : Profit			Processed	<u>1,20,000</u>	3,00,000
(94,600+72,400)	<u>1,67,000</u>		Branch: Processed	72,600	
	3,87,000		In transit	<u>11,000</u>	
Less: Drawings	<u>25,000</u>	3,62,000		83,600	
Sundry Creditors		5,85,750	Less: Stock Reserve		
			(Rs.1,000 + Rs. 6,600)	<u>7,600</u>	76,000
			Debtors		
			HO	3,22,000	
			Branch	<u>10,000*</u>	3,32,000
			Cash at Bank		1,96,000
			Cash-in-transit		43,750
		<u>9,47,750</u>			<u>9,47,750</u>

* 6,40,000 – 6,30,000 (W. N. 4)

Working Notes :

1. Calculation of value of Head Office Closing Stock

	Rs.
Purchases	19,93,350
Add : Processing Cost	34,650
	<u>20,28,000</u>
Less : Value of unprocessed goods	1,80,000
	<u>18,48,000</u>
Less : Cost of goods sold ($100/125 \times \text{Rs. } 14,20,000$)	11,36,000
	<u>7,12,000</u>
Less : Cost of goods sent ($100/110 \times \text{Rs. } 6,51,200$)	5,92,000
	<u>1,20,000</u>

2. Calculation of the Branch Closing Stock at invoice price

	Rs.
Invoice value of goods sent to Branch	6,51,200
Less: Goods-in-transit	11,000
	<u>6,40,200</u>
Goods received by Branch	6,40,200
Less: Invoice value of goods sold ($110/125 \times \text{Rs. } 6,40,000$)	5,63,200
	<u>77,000</u>
Less: Invoice value of goods shortage ($110/125 \times \text{Rs. } 5,000$)	4,400
	<u>72,600</u>

3. Calculation of cash received by Branch

Head Office Cash Account

Dr.	Rs.		Cr. Rs.
To Capital	2,20,000	By Creditors	
To Debtors		(Rs. 19,93,350-Rs. 5,85,750)	14,07,600
(Rs. 14,20,000-Rs. 3,22,000)	10,98,000	By Drawings	25,000
To Branch A/c	5,86,250	By Cost of processing	34,650
		By Selling expenses	2,41,000
		By Balance c/d	1,96,000
	<u>19,04,250</u>		<u>19,04,250</u>

4. Calculation of Cash received from Branch Debtors

Branch Cash Account

Dr.	Rs.		Cr. Rs.
To Branch Debtors (Bal. Fig.)	6,30,000	By Head Office (W. N. 3)	5,86,250
		By Head Office (Cash-in-transit)	43,750
	<u>6,30,000</u>		<u>6,30,000</u>

2.

Departmental Trading and Profit and Loss Account

For the year ending March 31, 2007

Dr.	Cloth	Readymade Clothes	Total		Cloth	Readymade Clothes	Total	Cr.
	Rs..	Rs.	Rs.		Rs.	Rs.	Rs.	
To Opening				By Sales	22,00,000	4,50,000	26,50,000	
Stock	3,00,000	50,000	3,50,000	By Transfer to				
To Purchases	20,00,000	15,000	20,15,000	Readymade				
				Clothes	3,00,000		3,00,000	
To Transfer				By Closing				
from Cloth				Stock	2,00,000	60,000	2,60,000	
Department		3,00,000	3,00,000					
To Manufacturing								
Expenses		60,000	60,000					
To Gross profit								
c/d	<u>4,00,000</u>	<u>85,000</u>	<u>4,85,000</u>					
	<u>27,00,000</u>	<u>5,10,000</u>	<u>32,10,000</u>		<u>27,00,000</u>	<u>5,10,000</u>	<u>32,10,000</u>	
To Selling				By Gross Profit				
Expenses	20,000	6,000	26,000	b/d	4,00,000	85,000	4,85,000	
To Profit c/d	<u>3,80,000</u>	<u>79,000</u>	<u>4,59,000</u>					
	<u>4,00,000</u>	<u>85,000</u>	<u>4,85,000</u>		<u>4,00,000</u>	<u>85,000</u>	<u>4,85,000</u>	
To General				By Profit b/d			4,59,000	
Expenses			1,10,000					
To Stock Reserve			1,575					
(See W. N.)								
To Net Profit			<u>3,47,425</u>					
			<u>4,59,000</u>				<u>4,59,000</u>	

Working Note:

Stock Reserve has been calculated as follows:

$$\text{Rate of Gross Profit on Sales in Cloth Department} = \frac{4,00,000}{25,00,000} \times 100 = 16\%$$

Element of Cloth in Closing Stock of Readymade Clothes :

$$75\% \text{ of Rs. } 60,000 = \text{Rs. } 45,000$$

$$\text{Reserve required for unrealised profit @ } 16\% \text{ of Rs. } 45,000 = \text{Rs. } 7,200$$

Less : Reserve already existing in Opening Stock

$$\frac{15}{100} \times \frac{75}{100} \times 50,000 = \text{Rs. } 5,625$$

$$\text{Additional Reserve required} = \text{Rs. } 1,575$$

Note : It has been possible to know the reserve already credited against unrealised profit in the opening stock. In the absence of information, the reserve should be calculated on the difference in the opening and closing stocks. In the above case, it would have been calculated on Rs. 10,000. Since the closing stock has increased, the reserve calculated on it would be debited to the Profit and Loss Account.

3. Statement showing Rebate on Bills discounted:

Value	Due Date	Days after 31.3.2007	Rate of discount	Discount Amount
18,25,000	5.6.2007	(30+ 31+5) = 66	12%	39,600
50,00,000	12.6.2007	(30+31+12) = 73	12%	1,20,000
28,20,000	25.6.2007	(30+31+25) = 86	14%	93,021
<u>40,60,000</u>	6.7.2007	(30+ 31+ 30+ 6) = 97	16%	<u>1,72,633</u>
<u>1,37,05,000</u>	Rebate on bills discounted on 31.3.2007			<u>4,25,254</u>

Journal Entries

(i)	Rebate on Bills Discounted A/c	Dr.	2,21,600	
	To Discount on Bills A/c			2,21,600
	[Being opening balance of Rebate on Bills discounted A/c transferred to Discount on Bills A/c]			
(ii)	Discount on Bills A/c	Dr.	4,25,250	
	To Rebate on Bills discounted			4,25,250
	[Being provision made on 31 st March, 2007]			
(iii)	Discount on Bills A/c	Dr.	8,52,996	
	To Profit and Loss A/c			8,52,996
	[Being transfer of discount on bills, of the year, to Profit and Loss A/c]			

Credit to Profit and Loss A/c will be: 10,56,650 + 2,21,600 – 4,25,254 = Rs.8,52,996.

4.

Investment Account in the books of A
[Equity shares in Omega Co. Ltd.]

	Nominal Value	Cost		Nominal Value	Cost
	Rs.	Rs.		Rs.	Rs.
To Cash	50,000	62,500	By Cash sale	50,000	45,000
To Bonus shares	50,000	-	By Balance c/d	50,000	31,250
To P & L A/c		13,750			
	<u>1,00,000</u>	<u>76,250</u>		<u>1,00,000</u>	<u>76,250</u>
To Balance b/d	50,000	31,250			

Note : The total cost of 1,000 share including bonus is Rs. 62,500

Therefore, cost of 500 shares (carried forward) is $\frac{500}{1000} \times 62,500 = \text{Rs. } 31,250$

Cost being lower than the market price, shares are carried forward at cost.

5.

Khushi Udyog
Departmental Trading and Profit and Loss Account
for the year ended 31st December, 2007

Dr.					Cr.				
Particulars	Cars	Petrol	Spare Parts	Repairs	Particulars	Cars	Petrol	Spare Parts	Repairs
	(Rs.)	(Rs.)	(Rs.)	(Rs.)		(Rs.)	(Rs.)	(Rs.)	(Rs.)
To Opening Stock	9,000	2,800	400	—	By Sales	1,20,000	32,000	4,700	14,700
To Purchases	83,500	27,500	4,000	—	By Inter Departmental Sales	—	200	750	2,400
To Parts used in repairs (W.N.2)	—	—	—	750	By Closing Stock	7,400	1,600	700	—
To Repairs on cars sold (W.N.3)	2,400	—	—	—					
To Wages	—	3,100	—	10,200					
To Gross Profit c/d	<u>32,500</u>	<u>400</u>	<u>1,750</u>	<u>6,150</u>		<u>1,27,400</u>	<u>33,800</u>	<u>6,150</u>	<u>17,100</u>
	<u>1,27,400</u>	<u>33,800</u>	<u>6,150</u>	<u>17,100</u>					
To Office wages (W.N. 4)	3,300	550	550	1,100	By Gross profit b/d	32,500	400	1,750	6,150
To Rates and Insurance (W.N. 4)	1,140	190	190	380	By Net Loss	—	1,000	—	—
To Salesmen's salaries and commission (7,700 + 500)	8,200	—	—	—					
To General Expenses (W.N. 4)	3,960	660	660	1,320					
To Demonstration petrol cost (W.N. 1)	200	—	—	—					
To Depreciation on Plant and Equipment	—	—	—	700					
To Net Profit	<u>15,700</u>	<u>—</u>	<u>350</u>	<u>2,650</u>		<u>32,500</u>	<u>1,400</u>	<u>1,750</u>	<u>6,150</u>
	<u>32,500</u>	<u>1,400</u>	<u>1,750</u>	<u>6,150</u>					

Balance Sheet of Khushi Udyog as at 31st December, 2007

Liabilities	Rs.	Assets	Rs.
Capital (Opening)	62,000	Goodwill	12,600
Add: Profit from Cars	15,700	Freehold Garage Premises	42,000
Add: Profit from spare parts	350	Plant and Equipment	7,000
Add: Profit from Repairs	2,650	Less: Depreciation	<u>700</u>
Less: Loss from Petrol	<u>(1,000)</u>	Stock (Rs. 7,400 + 1,600 + 700)	9,700
Creditors	10,800	Debtors	14,000
Outstanding General Expenses	300	Bank	4,700
Outstanding Car salesmen's commission	<u>500</u>	Cash	<u>2,000</u>
	<u>91,300</u>		<u>91,300</u>

Working Notes:

- (1) Petrol used for demonstration run will be treated as selling expenses of Car department and sales of Petrol department.
- (2) Spare parts used in repairs Rs. 750 will be treated as direct expenses of Repairs department and sales of Spare parts department.
- (3) Repairs on car subsequently sold Rs. 2,400 will be treated as direct expenses of Car department and sales of Repairs department.

(4) Apportionment of Common Expenses

	Expenses	Basis	Total (Rs.)	Cars (Rs.)	Petrol (Rs.)	Spare Parts (Rs.)	Repairs (Rs.)
(i)	General Expenses	6 : 1 : 1 : 2	6,600*	3,960	660	660	1,320
(ii)	Office Wages	6 : 1 : 1 : 2	5,500	3,300	550	550	1,100
(iii)	Rates and Insurance	6 : 1 : 1 : 2	1,900	1,140	190	190	380

*Rs. 6,300 + Rs. 300 (outstanding) = Rs. 6,600

6.

Cash flow Statement of MNG Fertilizers

For the year ended 31.3.2007

Cash flow from Operating Activities	(Rs. in thousand)	
Change in general reserve	(200)	
Change in profit and loss account	(250)	
Proposed dividend	3,400	
Provision for tax	<u>0</u>	
Profit before tax		2,950
Add: Depreciation	550	
Add: Miscellaneous Expenses	50	
Add/(Less): Profit /(loss) on sale of fixed assets	(50)	
Add/(Less): Profit /(loss) on sale of investments	<u>(500)</u>	<u>50</u>
Funds flow from operations		3,000
Add: Interest paid		1,421
Less: Interest and Dividend Received		(402)
Add/(Less): Working Capital Adjustments		
Inventories	90	
Debtors	110	
Creditors	(150)	
Outstanding expenses	<u>30</u>	<u>80</u>
Cash flow from Operating Activities (before Tax)		4,099
Less: Advance tax for 2006-2007		<u>0</u>
Cash flow from Operating Activities (after tax)		<u>4,099</u>
Cash flow from Financing Activities		
Issue of shares		
Face value	1,500	
Premium	<u>750</u>	2,250
Repayment of Secured Loans	(200)	

Raising of Unsecured Loans	<u>1,350</u>	
Net loan		1,150
Interest payment		(1,421)
Dividend payment for 2006		<u>(2,800)</u>
		<u>(821)</u>
Cash flow from Investment Activities		
Purchase of Fixed Assets	(1,800)	
Sale of Fixed Assets	150	
Capital WIP	<u>(1,860)</u>	
Fixed Assets (Net)		(3,510)
Purchase of Investments	(1,330)	
Sale Proceeds of Investments	<u>2,500</u>	
Investments (Net)		1,170
Loans		(1,500)
Interest and Dividend Income		<u>402</u>
		<u>(3,438)</u>
Cash Flow Statement		
Cash flow from Operating Activities (after tax)		4,099
Cash flow from Financing Activities		(821)
Cash flow from Investment Activities		<u>(3,438)</u>
		(160)
Add : Cash and cash equivalents as on 31.3.2006		<u>280</u>
Cash and cash equivalents as on 31.3.2007		<u>120</u>

7.

Hire Purchase Trading Account

Particulars	Rs.	Particulars	Rs.
To Opening Balances:		By Bank A/c	63,000
Hire Purchase Stock	—	By Goods sold on Hire	
Hire Purchase Debtors	—	Purchase A/c	51,999
To Goods sold on Hire Purchase	1,55,997	[Rs.1,55,997 × 35/105]	
To Hire Purchase Stock Reserve A/c	25,749	By Goods Repossessed A/c	10,500
(Rs. 77,247 × 35/105)		By Closing Balances:	
To Profit transferred to General Profit and Loss A/c	<u>21,000</u>	Hire Purchase Stock	77,247
	<u>2,02,746</u>	Hire Purchase Debtors	<u>—</u>
			<u>2,02,746</u>

Working Notes:

(i)

Memorandum Hire Purchase Stock Account

Dr.

Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	—	By Hire Purchase Debtors A/c	78,750
To Goods sold on Hire Purchase	<u>1,55,997</u>	By Balance c/d (Bal. Fig)	<u>77,247</u>
	<u>1,55,997</u>		<u>1,55,997</u>

(ii) Memorandum Hire Purchase Debtors Account

Dr.							Cr.
	Particulars		Rs.		Particulars		Rs.
To	Balance b/d		—	By	Bank A/c		63,000
To	Hire Purchase Stock A/c (Bal. Fig.)		78,750	By	Goods Repossessed A/c (Rs. 10,500 × 105/70)		<u>15,750</u>
			<u>78,750</u>				<u>78,750</u>

(iii) Calculation of Hire Purchase Price

- (a) If Normal Retail Price = Rs. 100, then Gross Profit will be Rs. 30 and cost will be Rs. 70.
- (b) Hire Purchase Price = Normal Retail Price + Additional Profit
 = Rs. 100 + Rs. 5
 = Rs. 105.
- (c) Profit on Hire Purchase Price = Normal Profit + Additional Profit
 = Rs. 30 + Rs. 5
 = Rs. 35.

8. (i) Profit and Loss Appropriation Account

To	Plant - Loss on sale of plant	2,000	By	Motor Car - Profit on Sale	2,000
To	Partners' Capital A/cs		By	Profit and Loss A/c	59,600
	X	32,640			
	Y	23,840			
	Z	<u>3,120</u>			
		<u>61,600</u>			<u>61,600</u>

Calculation of profit apportionment:	Total	X	Y	Z
	Rs.	Rs.	Rs.	Rs.
Upto 30.9.2006	44,000	26,400	17,600	NIL
From 30.9.06 to 31.3.2007	<u>15,600</u>	<u>6,240</u>	<u>6,240</u>	<u>3,120</u>
	<u>59,600</u>	<u>32,640</u>	<u>23,840</u>	<u>3,120</u>

(ii) Partners' Capital Accounts

			X	Y	Z				X	Y	Z
			Rs.	Rs.	Rs.				Rs.	Rs.	Rs.
30.9.06	To	Goodwill A/c	24,000	24,000	12,000	30.9.06	By	Balance	80,000	50,000	-
31.7.07	To	Motor Car	7,400	-	-		By	Plant & Machinery	-	-	24,000
	To	Drawings	22,000	20,000	9,600		By	Fixtures	-	-	6,000
	To	12% Loan	90,000	-	-		By	Goodwill A/c	24,000	16,000	20,000
	To	Bank	25,240	-	-		By	Profit upto 30.9.06	26,400	17,600	-

	To	Balance c/d	-	77,840	47,520	31.7.07	By	Profit for 6 months ended 31.3.07	6,240	6,240	3,120
							By	Goodwill A/c	<u>32,000</u>	<u>32,000</u>	<u>16,000</u>
				<u>1,68,640</u>	<u>1,21,840</u>				<u>1,68,640</u>	<u>1,21,840</u>	<u>69,120</u>
31.7.07	To	Bank		15,160	-	31.7.07	By	Balance b/d		77,840	47,520
	To	Share Capital	-	62,680	62,680		By	Bank			15,160
				<u>77,840</u>	<u>62,680</u>					<u>77,840</u>	<u>62,680</u>

(iii)

Balance Sheet of YZ Ltd.

Liabilities	Rs.	Assets	Rs.
Share Capital	1,25,360	Goodwill	80,000
12% Loan	90,000	Plant	38,000
Sundry creditors	32,000	Fixtures (14,000 + 6,000)	20,000
		Stock	24,000
		Sundry Debtors	70,000
		Cash-at-Bank	<u>15,360</u>
	<u>2,47,360</u>		<u>2,47,360</u>

Bank A/c

To	Balance b/d	34,600	By	X's Capital A/c	25,240
To	Plant (Sold) A/c	6,000	By	Y's Capital A/c	15,160
To	Z's Capital A/c	<u>15,160</u>	By	Balance c/d	<u>15,360</u>
		<u>55,760</u>			<u>55,760</u>

Total Capital of the firm before conversion:

Y	77,840
Z	<u>47,520</u>
	<u>1,25,360</u>

As Y and Z would continue with equal shareholding, therefore, share capital of Y and Z would be Rs. $1,25,360 / 2 = \text{Rs.} 62,680$ each.

	Rs.
Z should bring cash Rs. $(62,680 - 47,520) =$	15,160
Y should withdraw cash Rs. $(77,840 - 62,680) =$	15,160

9. (a) Amount of foreseeable loss (Rs in lakhs)

Total cost of construction (500 + 105 + 495)	1,100
Less: Total contract price	<u>1,000</u>
Total foreseeable loss to be recognized as expense	<u>100</u>

According to para 35 of AS 7 (Revised 2002), when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(b) Contract work-in-progress i.e. cost incurred to date are Rs. 605 lakhs	(Rs in lakhs)
Work certified	500
Work not certified	<u>105</u>
	<u>605</u>

This is 55% ($605/1,100 \times 100$) of total costs of construction.

- (c) Proportion of total contract value recognised as revenue as per para 21 of AS 7 (Revised).
55% of Rs. 1,000 lakhs = Rs. 550 lakhs

- (d) Amount due from/to customers = Contract costs + Recognised profits – Recognised losses – (Progress payments received + Progress payments to be received)
= Rs. [605 + Nil – 100 – (400 + 140)] in lakhs
= Rs. [605 – 100 – 540] in lakhs

Amount due to customers = Rs. 35 lakhs

The amount of Rs. 35 lakhs will be shown in the balance sheet as liability.

- (e) The relevant disclosures under AS 7 (Revised) are given below:

	Rs. in lakhs
Contract revenue	550
Contract expenses	605
Recognised profits less recognized losses	(100)
Progress billings (400 + 140)	540
Retentions (billed but not received from contractee)	140
Gross amount due to customers	35

10.

Dr.		Fixed Assets Account		Cr.
		Rs.		Rs.
1.4.2002	To Bank	90,00,000	31.3.2003	By Depreciation
				By Balance c/d
		<u>90,00,000</u>		<u>81,00,000</u>
1.4.2003	To Balance b/d	81,00,000	31.3.2004	By Depreciation
				By Balance c/d
		<u>81,00,000</u>		<u>72,00,000</u>
1.4.2004	To Balance b/d	72,00,000	1.4.2004	By Revaluation Reserve (W.N.2)
				3,60,000

	To	Revaluation Reserve (W.N.1)	5,40,000	31.3.2005	By	Depreciation (W.N.3)	9,22,500
					By	Balance c/d	<u>64,57,500</u>
			<u>77,40,000</u>				<u>77,40,000</u>
1.4.2005	To	Balance b/d	64,57,500	31.3.2006	By	Depreciation	9,22,500
					By	Balance c/d	<u>55,35,000</u>
			<u>64,57,500</u>				<u>64,57,500</u>
1.4.2006	To	Balance b/d	55,35,000	1.4.2006	By	Bank	54,80,000
					By	Revaluation Reserve (loss)	<u>55,000</u>
			<u>55,35,000</u>				<u>55,35,000</u>

Depreciation Account

Rs.				Rs.			
31.3.2003	To	Fixed assets	<u>9,00,000</u>	31.3.2003	By	P/L Account	<u>9,00,000</u>
31.3.2004	To	Fixed assets	<u>9,00,000</u>	31.3.2004	By	P/L Account	<u>9,00,000</u>
31.3.2005	To	Fixed assets	9,22,500	31.3.2005	By	P/L Account	9,00,000
					By	Revaluation Reserve Account (W.N.4)	<u>22,500</u>
			<u>9,22,500</u>				<u>9,22,500</u>
31.3.2006	To	Fixed assets	9,22,500	31.3.2006	By	P/L Account	9,00,000
					By	Revaluation Reserve Account	<u>22,500</u>
			<u>9,22,500</u>				<u>9,22,500</u>

Dr.			Revaluation Reserve Account			Cr.	
Rs.			Rs.			Rs.	
1.4.2004	To	Fixed assets (Loss on revaluation)	3,60,000	1.4.2004	By	Fixed Assets (upward revaluation)	5,40,000
31.3.2005	To	Depreciation (W.N.4)	22,500				
	To	Balance c/d	<u>1,57,500</u>				
			<u>5,40,000</u>				<u>5,40,000</u>
31.3.2006	To	Depreciation	22,500	1.4.2005	By	Balance b/d	1,57,500
	To	Balance c/d	<u>1,35,000</u>				
			<u>1,57,500</u>				<u>1,57,500</u>
1.4.2006	To	Fixed assets (Loss on sale of revalued assets)	55,000	1.4.2006	By	Balance b/d	1,35,000
	To	General Reserve	<u>80,000</u>				
			<u>1,35,000</u>				<u>1,35,000</u>

Workings Notes:

1. Calculation of Revaluation amount to be charged/credited to P/L account / Revaluation reserve account:

Downward revision charged to P/L account = $(Rs.72,00,000 \times \frac{1}{2}) \times 10\% = Rs.3,60,000$

Upward revision credited to Revaluation reserve account = $(Rs.72,00,000 \times \frac{1}{2}) \times 15\% = Rs.5,40,000$

2. Value of Fixed assets after revaluation as on 1.4.04:

$[(72,00,000 \times \frac{1}{2}) - 3,60,000] + \{(72,00,000 \times \frac{1}{2}) + 5,40,000\} = Rs.32,40,000 + 41,40,000 = Rs.73,80,000$

3. Depreciation in each year for remaining 8 years

Value of Fixed Assets Rs.73,80,000 (W.N.2)

Remaining life of the asset = 8 years

New Depreciation = $Rs.73,80,000/8 = Rs.9,22,500$

4. Depreciation to be charged to Revaluation Reserve

= $Rs.9,22,500 - Rs.9,00,000 = Rs.22,500$

11.

Electric Supply Ltd.
Journal Entries

	Dr.	Cr.
	Rs.	Rs.
New Main Account	Dr. 20,95,000	
Replacement Account	Dr. 19,05,000	
To Bank Account		40,00,000
(Being current cost of replacement charged to replacement account and the balance amount capitalised)		
New Main Account	Dr. 2,00,000	
To Replacement Account		2,00,000
(Being the value of motors salvaged from old main used in the reconstruction of main)		
Bank Account	Dr. 70,000	
To Replacement Account		70,000
(Being the amount realised from sale of old materials credited to replacement account)		
Revenue Account	Dr. 16,35,000	
To Replacement Account		16,35,000
(Being the net current cost of replacement transferred to revenue account)		

Working Notes:

1. Current cost of replacement:

	Cost of existing main Rs.	Increase in cost Rate	Amount Rs.	Current cost Rs.
Materials ($3/5 \times \text{Rs. 15 lacs}$)	9,00,000	25%	2,25,000	11,25,000
Labour ($2/5 \times \text{Rs. 15 lacs}$)	6,00,000	30%	1,80,000	7,80,000
Estimated current cost for replacement of present main (amount to be charged to replacement account)				<u>19,05,000</u>

2. Additional cost of reconstruction of main (to be capitalised)

Cash cost of re-building new main	40,00,000
Less: Estimated current cost for replacement of existing old main	<u>19,05,000</u>
Additional cost in new main to be capitalised (excluding old motors used)	<u>20,95,000</u>

3. Replacement Account

Dr.			Cr.
To Bank A/c	19,05,000	By New Main A/c	2,00,000
		By Bank A/c	70,000
		By Replacement A/c (Bal. Fig.)	16,35,000
	<u>19,05,000</u>		<u>19,05,000</u>

12.

Everybody Assurance Co. Ltd.

Revenue Account for the year ended 31st March, 2007

Particulars	Schedule	Rs. in lakhs
Premiums earned – net	1	2,19,472
Income from Investments (W.N.2)		67,861
Other Income:		
Consideration for Annuities granted		<u>10,712</u>
Total (A)		<u>2,98,045</u>
Commission	2	26,541
Operating Expenses related to Insurance Business	3	19,890
Income Tax paid		<u>3,060</u>
Total (B)		<u>49,491</u>
Benefits Paid (Net)	4	<u>1,96,130</u>
Total (C)		<u>1,96,130</u>
Surplus (D) = (A) – (B) – (C) (Being Funds for Future Appropriation)		<u>52,424</u>

Balance Sheet as at 31st March, 2007

	Schedule	Rs. in lakhs
SOURCES OF FUNDS		
Share Capital	5	13,99,400
Policyholders' Life Assurance Funds		<u>14,70,562</u>
		28,69,962
Funds for Future Appropriations		<u>52,424</u>
Total		<u>29,22,386</u>
APPLICATION OF FUND		
Investments	8	24,90,890
Fixed Assets	10	<u>4,19,110</u>
Current Assets:		
Advances and Other Assets	12	<u>32,800</u>
Sub Total (A)		<u>32,800</u>
Current Liabilities:	13	<u>20,414</u>
Sub Total (B)		<u>20,414</u>
Net Current Assets (C) = (A)-(B)		<u>12,386</u>
Total		<u>29,22,386</u>
SCHEDULE-1		
Premium		
Premiums earned-net (W.N.1)		<u>2,19,472</u>
SCHEDULE - 2		
Commission Expenses		<u>26,541</u>
SCHEDULE - 3		
Operating Expenses Related to Insurance Business		<u>19,890</u>
SCHEDULE - 4		
Benefits Paid (Net)		
1. Insurance Claims		
(a) Claims by Death (76,980 + 8,000)		84,980
(b) Claims by Maturity		56,420
(c) Annuities		29,420
(d) Surrenders		21,860
(e) Bonus in cash		9,450
(f) Bonus in reduction of premiums (2,500 + 1,500)		4,000
2. Amount ceded in reinsurance		
Claims by Death		<u>(10,000)</u>
Total		<u>1,96,130</u>
SCHEDULE -5		
Share Capital		
Called up and paid-up Capital		14,00,000
Less:Preliminary Expenses		<u>600</u>
Total		<u>13,99,400</u>

SCHEDULE -8

Investments

Government Securities	24,90,890
Total	<u>24,90,890</u>

SCHEDULE - 10

Fixed Assets	4,19,110
Total	<u>4,19,110</u>

SCHEDULE - 12

Advances and Other Assets

Other Assets

Interest accrued on investments	15,400
Outstanding premiums	7,400
Due from Reinsurers	<u>10,000</u>
Total	<u>32,800</u>

SCHEDULE - 13

Current Liabilities

Claims Outstanding (8,000 + 10,034 + 2,380)	<u>20,414</u>
Total	<u>20,414</u>

Working Notes:

1. Premiums received	2,10,572
Add: Outstanding premium	7,400
Covered by bonus utilized for reduction of premium	<u>1,500</u>
Premiums earned (net)	<u>2,19,472</u>
2. Interest, dividends and rents	52,461
Add: Interest accrued	<u>15,400</u>
	<u>67,861</u>

13. In the book of Overcome Ltd.
Journal Entries

Particulars	Debit (Rs.)	Credit (Rs.)
1. Reduction of equity capital		
Equity share capital A/c (Face Value 50/-) Dr.	7,50,000	
To Equity share capital (Face Value Rs. 2.50) A/c		37,500
To Capital Reduction A/c		7,12,500
2. Right issue: (15,000X3=45,000 shares)		
1. Bank A/c Dr.	1,12,500	
To Equity share application money A/c		1,12,500
2. Equity share application money A/c	1,12,500	
To Equity share capital		1,12,500
3. Cancellation of arrears of preference share dividend		
NO ENTRY		
On cancellation, arrears of preference share dividend ceases to be a contingent liability and hence no further disclosure should be given.		

4.	Conversion of preference shares			
	7% Preference share capital A/c	Dr.	6,00,000	
	Capital reduction A/c (balancing figure)	Dr.	60,000	
	To 5% Preference share capital (12,000X4X10)			4,80,000
	To Equity share capital (12,000 X 6 X 2.50)			1,80,000
5.	Conversion of loan			
	Loan A/c	Dr.	1,50,000	
	To 5% Preference share capital A/c			1,20,000
	To Equity share capital A/c			30,000
6.	Subscription by director:			
	i. Bank A/c	Dr.	1,00,000	
	To Equity share application money A/c			1,00,000
	ii. Equity share application money A/c	Dr.	1,00,000	
	To Equity share capital A/c			1,00,000
7.	Repayment of loan			
	Loan A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
8.	Utilisation of reconstruction surplus			
	Capital Reduction A/c	Dr.	6,52,500	
	To Preliminary expenses A/c			11,000
	To Profit and loss A/c			4,40,000
	To Plant A/c			35,000
	To Trademarks and goodwill A/c (Bal. Fig.)			1,66,500

Balance sheet of Overcome Ltd. (and Reduced)

Liabilities	Rs.	Asset	Rs.
Authorised Share Capital:		Fixed assets:	
3,00,000 Equity shares of Rs. 2.50 each	7,50,000	Building at cost less depreciation	4,00,000
60,000 Preference shares of Rs. 10 each	<u>6,00,000</u>	Plant cost less depreciation	2,68,000
	<u>13,50,000</u>	Less: Reduced	<u>(35,000)</u>
Issued, subscribed and paid up capital:			
1,84,000 equity shares of Rs. 2.50 each	4,60,000	Trademarks and Goodwill at cost	3,18,000
		Less: Reduced	<u>(1,66,500)</u>
60,000, 5% Preference shares of Rs.10 each	6,00,000	Current assets:	
		Stock	4,00,000
		Debtors	3,28,000
Secured and unsecured loans:		Bank	12,500
Loan	5,73,000		
Less: Reduced	<u>(3,50,000)</u>		
	2,23,000		

Current Liabilities and
Provisions:

Sundry creditors	2,07,000	
Other liabilities	<u>35,000</u>	
	<u>15,25,000</u>	<u>15,25,000</u>

Capital Reduction A/c

Dr.				Cr.
Particulars	Rs.	Particulars		Rs.
To Preference shareholders A/c	60,000	By Equity share capital	7,12,500	
To Preliminary expenses A/c	11,000			
To Profit and loss A/c	4,40,000			
To Plant A/c	35,000			
To Trademarks and goodwill A/c	<u>1,66,500</u>			
	<u>7,12,500</u>			<u>7,12,500</u>

Bank A/c

Dr.				Cr.
Particulars	Rs.	Particulars		Rs.
To Equity Share application A/c	1,12,500	By Loan A/c	2,00,000	
To Equity share application A/c	<u>1,00,000</u>	By balance c/d	<u>12,500</u>	
	<u>2,12,500</u>		<u>2,12,500</u>	

14. Trading Account of Hurry up Co. Ltd.
For the year ending 31st December.....

		Rs.			Rs.
To	Opening Stock	4,20,000	By	Sales	9,10,000
To	Purchases	7,70,000	By	Closing Stock	4,80,000
To	Gross Profit c/d	<u>2,00,000</u>			
		<u>13,90,000</u>			<u>13,90,000</u>

Profit and Loss Account of Hurry Up Co. Ltd.
For the year ending 31st December.....

		Prior to Incorporation	After Incorporation			Prior to Incorporation	After Incorporation
		Rs.	Rs.			Rs.	Rs.
To	Salaries and Wages	12,000	36,000	By	Gross Profit b/d (1:3)	50,000	1,50,000
"	Miscellaneous Expenses	5,500	16,500	By	Rent Received (1:3)	3,250	9,750
"	Rates and Taxes	1,750	5,250				
"	Repairs to Building	750	2,250				
"	Preliminary Expenses	-	8,000				
"	Bad Debts	500	500				

"	Provision for Doubtful Debts	-	5,000		
"	Directors' fees	-	2,400		
"	Interest to Vendors	8,750	8,750		
	Building @ 5%	6,500			
	Furniture @ 10%	1,500			
	Vehicle @ 20%	<u>7,000</u>			
		15,000	3,750	11,250	
"	Capital Reserve	20,250	---		
"	Net Profit	<u>---</u>	<u>63,850</u>		
		<u>53,250</u>	<u>1,59,750</u>	<u>53,250</u>	<u>1,59,750</u>

Balance Sheet of Hurry up Co. Ltd.
As at 31st December.....

Liabilities	Rs.	Assets	Rs.
Share Capital:			
Authorised, Subscribed & Issued 4,500 shares of Rs.100 each fully paid	4,50,000	Fixed Assets	
(of the above, 3,500 shares were allotted as fully paid to vendors for consideration other than cash)		Goodwill	3,100
		Freehold Land at cost	50,000
		Building at cost	1,30,000
		Less: Depreciation	<u>6,500</u>
			1,23,500
Reserves & Surplus:		Furniture & Fixtures	15,000
Capital Reserve	20,250	Less: Depreciation	<u>1,500</u>
Profit & Loss Account	63,850		13,500
Secured Loans	Nil	Transport Vehicle at cost	35,000
Unsecured Loans		Less: Depreciation	<u>7,000</u>
Bank Overdraft	1,65,000		28,000
Fixed Deposits received	35,000	Investments:	Nil
Current Liabilities & Provisions		Current Assets, Loans & Advances:	
Sundry Creditors	65,000	Stock	4,80,000
	<u>7,99,100</u>	Sundry Debtors	94,000*
		Less: Provision for doubtful debts	<u>5,000</u>
			89,000
		Cash in hand	<u>12,000</u>
			<u>7,99,100</u>

15. Balance Sheet of Z Ltd. as on 1st April, 2007

Liabilities	Amount	Assets	Amount
Share Capital		Fixed Assets	
4,80,00,000 Equity shares of Rs.10 each	48.00	Land and Buildings	63.00
34,00,000 15% Preference Shares of Rs.100 each	34.00	Plant and Machinery	41.00
(all the above shares are allotted as fully paid up as consideration other than cash)		Investments	16.00

* Rs.95,000 – Rs.1,000

Reserves and Surplus		Current Assets, Loans and Advances	
Security Premium (60 + 36 + 4 + 2.8)	102.80	A. Current Assets	
Capital Reserve (W.N.4)	4.70	Stock	37.00
Investment Allowance Reserve	9.00	Sundry Debtors	45.00
Secured Loans		Cash at Bank	29.00
18% of Debentures (Rs.100 each)	7.50	B. Loans and Advances	
Unsecured Loans		Bills Receivable	9.00
Current Liabilities and Provisions		Miscellaneous Expenditure	
Sundry Creditors	26.00	(to the extent not written off or adjusted)	
Bills Payable	17.00	Amalgamation Adjustment Account	9.00
	<u>249.00</u>		<u>249.00</u>

Note: Since Investment Allowance Reserve is to be maintained for 4 years, it is carried forward by a corresponding debit to Amalgamation Adjustment Account in accordance with AS-14.

Working Notes:

1. Calculation of Net assets taken over

Particulars	(Rs. In crores)	
	X Ltd.	Y Ltd.
Assets taken over:		
Land and Buildings	38	25
Plant and Machinery	24	17
Investments	10	6
Stock	22	15
Sundry Debtors	25	20
Bills Receivable	5	4
Cash at Bank	<u>16</u>	<u>13</u>
	(i) <u>140</u>	<u>100</u>
Liabilities taken over:		
Debentures	3.33	4.17
Sundry Creditors	19.00	7.00
Bills Payable	<u>12.00</u>	<u>5.00</u>
	(ii) <u>34.33</u>	<u>16.17</u>
Net assets taken over	(i) – (ii) 105.67	83.83

2. Calculation of No. of Debentures to be issued in Z Ltd.

X Ltd.

Existing Debenture interest @ 15% = Rs.400 lakhs x 15/100 = Rs.60 lakhs

Debentures to be issued in Z Ltd. @ 18% to maintain the same amount of interest

= Rs.60 lakhs x 100/18 = Rs.333.33 lakhs

or Rs.3.33 crores

Y Ltd.

Existing Debenture interest @15% = Rs.500 lakhs x 15/100 = Rs.75 lakhs

Debentures to be issued in Z Ltd. @ 18% to maintain the same amount of interest

= Rs.75 x 100/18 = Rs.416.67 lakhs

or Rs.4.17 crores

3. Computation of Purchase Consideration:

	(Rs. In crores)	
	X Ltd.	Y Ltd.
1. Equity Shareholders		
$\frac{\text{Rs.50 crores}}{\text{Rs.10}} \times \frac{6}{10} \times \text{Rs.30}$	90	
$\frac{\text{Rs.45 crores}}{\text{Rs.10}} \times \frac{2}{5} \times \text{Rs.30}$		54
2. Preference Shareholders		
$\frac{\text{Rs.20 crores}}{\text{Rs.100}} \times \text{Rs.120}$	24	
$\frac{\text{Rs.14 crores}}{\text{Rs.100}} \times \text{Rs.120}$		16.8
Total Purchase consideration	<u>114</u>	<u>70.8</u>

4. Calculation of Goodwill/Capital Reserve

	(Rs. in crores)	
Particulars	X Ltd.	Y Ltd.
Net Assets takeover	105.67	83.83
Less: Purchase Consideration	<u>114.00</u>	<u>70.80</u>
Goodwill	8.33	----
Capital Reserve	<u>---</u>	<u>13.03</u>

Note: Goodwill arising from amalgamation shall be adjusted against capital Reserve arising from amalgamation, and only balance of Rs.4.70 (i.e. 13.03 – 8.33) crores is to be shown in the Balance Sheet of Z Ltd as capital reserve.

16. Statement of liabilities of B list contributories

Share-Holders	No. of shares transferred	Maximum liability (upto Rs. 2 per share)	Division of Liability as on				Total
			1.5.2006	1.10.2006	1.11.2006	1.2.2007	
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
P	1,500	3,000	1,500	—	—	—	1,500
Q	1,000	2,000	1,000	555	—	—	1,555
R	500	1,000	500	278	188	—	966
S	<u>300</u>	<u>600</u>	<u>300</u>	<u>167</u>	<u>112</u>	<u>21</u>	<u>600</u>
	<u>3,300</u>	<u>6,600</u>	<u>3,300</u>	<u>1,000</u>	<u>300</u>	<u>21</u>	<u>4,621</u>

Working Note:

Date	Cumulative liability	Increase in liability	Ratio of no. of shares held by the members
1.5.2006	3,300	—	30 : 20 : 10 : 6
1.10.2006	4,300	1,000	20 : 10 : 6
1.11.2006	4,600	300	10 : 6
1.2.2007	6,000	1,400	Only S

Liability of S has been restricted to the maximum allowable limit of Rs. 600, therefore amount payable by S is restricted to Rs. 21 only, on 1.2.2007.

Notes:

1. A will not be liable to pay to the outstanding creditors since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 1st May, 2006 (from the date when he ceases to be member). Similarly, Q and R will not be responsible for the debts incurred after the date of their transfer of shares.

17. (i) Statement showing underwriters' liability for shares other than shares underwritten firm

	(No. of shares)			
	X	Y	Z	Total
Gross liability	5,85,000	2,25,000	90,000	9,00,000
(9,00,000 shares in the ratio of 65 : 25 : 10)				
Less : Marked applications	<u>1,19,500</u>	<u>57,500</u>	<u>10,500</u>	<u>1,87,500</u>
	4,65,500	1,67,500	79,500	7,12,500
Less : Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10	<u>4,55,000</u>	<u>1,75,000</u>	<u>70,000</u>	<u>7,00,000</u>
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio 65 : 10	<u>(6,500)</u>	<u>7,500</u>	<u>(1,000)</u>	<u>—</u>
	4,000	—	8,500	12,500
	Rs.	Rs.	Rs.	
Liability @ Rs. 11	44,000	—	93,500	
Underwriting commission payable (Gross liability × Rs. 11 × 2%)	<u>1,28,700</u>	<u>49,500</u>	<u>19,800</u>	
Net Amount payable	84,700	49,500		
Net Amount receivable	<u>—</u>	<u>—</u>	<u>73,700</u>	

(ii) Journal Entries

	Dr.	Cr.
	Rs.	Rs.
Bank A/c	Dr. 11,00,000	
To Equity Shares Application A/c		11,00,000
(Being application money received on 1 lakh equity shares @ Rs. 11 per share)		

Bank A/c	Dr.	97,62,500	
To Equity Share Application A/c			97,62,500
(Application money received on 8,87,500 equity shares @ Rs. 11 per share from general public and underwriters for shares underwritten firm)			
Equity Share Application A/c	Dr.	1,08,62,500	
X' s A/c	Dr.	44,000	
Z' s A/c	Dr.	93,500	
To Equity Share Capital A/c			1,00,00,000
To Securities Premium A/c			10,00,000
(Allotment of 10 lakh equity shares of Rs. 10 each at a premium of Re. 1 per share)			
Underwriting commission A/c	Dr.	1,98,000	
To X's A/c			1,28,700
To Y's A/c			49,500
To Z's A/c			19,800
(Amount of underwriting commission payable to X, Y and Z @2% on the amount of shares underwritten)			
Bank A/c	Dr.	73,700	
To Z's A/c			73,700
(Amount received from Z in final settlement)			
X's A/c	Dr.	84,700	
Y's A/c	Dr.	49,500	
To Bank A/c			1,34,200
(Amount paid to X and Y in final settlement)			

18. Trading and Profit and Loss Account of Mr. X
For the year ended 31st March, 2007

	Rs.		Rs.	Rs.
To Opening Stock	11,400	By Sales:		
To Purchases (W.N.2)	8,28,000	Cash (W.N.3)	2,97,500	
To Gross Profit	3,78,100	Credit	<u>9,00,000</u>	11,97,500
		By Closing Stock		<u>20,000</u>
	<u>12,17,500</u>			<u>12,17,500</u>
To Wages	78,000	By Gross Profit		3,78,100
To Rent (W.N.4)	30,600			
To Electricity & Telephone (W.N.5)	30,400			
To Professional charges	34,000			
To Shop Expenses	18,000			
To Depreciation	2,700			

		$(Rs.54,000 \times \frac{10}{100} \times \frac{1}{2})$
To Net Profit	<u>1,84,400</u>	
	<u>3,78,100</u>	<u>3,78,100</u>

Statement of Affairs of Mr. X as on 31-03-2007

Liabilities	31-3-2007	Assets	31-3-2007
	Rs.		Rs.
Capital Account (Bal. Fig.)	1,01,300	Furniture	51,300
Sundry Creditors	22,400	Stock	20,000
Outstanding Expenses:		Sundry Debtors	58,800
Rent	3,000	Bank	2,500
Electricity & Telephone	<u>6,400</u>	Cash	<u>500</u>
	<u>1,33,100</u>		<u>1,33,100</u>

RECONCILIATION OF PROFIT

	Rs.
Capital on 31.03.2007	1,01,300
Add: Drawings	<u>1,61,900</u>
	2,63,200
Less: Opening Capital on 1.4.2006	<u>(78,800)</u>
Profit for the year	<u>1,84,400</u>

Working Notes

1.	Total Debtors Account			
	Rs.		Rs.	
To Balance b/d	35,400	By Cash (Bal. Fig.)	8,76,600	
To Credit Sales	<u>9,00,000</u>	By Balance c/d	<u>58,800</u>	
	9,35,400		9,35,400	

2.	Total Creditors Account			
	Rs.		Rs.	
To Bank	8,90,000	By Balance b/d	84,400	
To Balance c/d	<u>22,400</u>	By Credit Purchases (Bal.Fig.)	<u>8,28,000</u>	
	9,12,400		9,12,400	

3.

Cash Account					
	Cash (Rs.)	Bank (Rs.)		Cash (Rs.)	Bank (Rs.)
To Balance b/d	10,400	1,08,400	By Bank	10,34,000	-
To Sundry Debtors (W.N.1)	8,76,600	-	By Wages	78,000	-
To Cash Sales (Bal. fig.)	2,97,500	-	By Rent	30,000	-

To Cash A/c (Contra)	-	10,34,000	By Electricity & Telephone	24,000	-
			By Shop Expenses	18,000	-
			By Professional charges	-	34,000
			By Sundry Creditors A/c	-	8,90,000
			By Furniture	-	54,000
			By Drawings A/c	-	1,61,900
			By Balance c/d	500	2,500
		<u>11,84,500</u>		<u>11,84,500</u>	<u>11,42,400</u>

Rs.

4. Rent Paid	30,000
Less: Outstanding on 1.4.2006	<u>(2,400)</u>
	27,600
Add: Outstanding on 31.3.2007	<u>3,000</u>
	<u>30,600</u>

Rs.

5. Electricity & Telephone	
Electricity & Telephone charges paid	24,000
Add: Outstanding on 31.3.2007	<u>6,400</u>
	<u>30,400</u>

6. Statement of Affairs of Mr. X as on 31-03-2006

Liabilities	31-3-2006	Assets	31-3-2006
	Rs.		Rs.
Capital Account (Bal. Fig.)	78,800	Stock	11,400
Sundry Creditors	84,400	Sundry Debtors	35,400
Outstanding Rent	2,400	Bank	1,08,400
		Cash	<u>10,400</u>
	<u>1,65,600</u>		<u>1,65,600</u>

19. Since accounts were not prepared for 2005-2006 and 2006-2007 it is necessary to ascertain profit or loss incurred in these two years. Hence, the following trial balance with book figures shall be prepared:

Trial Balance			
Dr.		Cr.	
Rs.		Rs.	
Freehold Property	40,000	Capital : Introduced	33,000
Plant & Machinery cost	20,000	Add : Profit for 3 years	<u>7,000</u>
Less : Depreciation	<u>6,000</u>		40,000
Book Debts – Good	6,000	Less : Drawings for 5 years	<u>15,000</u>
			25,000

Doubtful	2,000	Sundry Creditors	20,000
Bad	<u>500</u>	Mortgage on Freehold Property	4,000
Fixtures and Fittings	800	Creditors secured by Policy	12,000
Stock in Trade	8,000	Creditors by Expenses	
Cash in Hand	80	Landlord	200
Loss (balancing figure)	5,200	Salary	200
		Taxes	<u>180</u>
			580
		Mrs. Mohan's Loan	3,000
		Second Mortgage on Freehold Property	12,000
	<u>76,580</u>		<u>76,580</u>

The trial balance reveals that a total loss of Rs. 5,200 has been incurred during the last two years for which proper accounts were not prepared.

Statement of Affairs of Mohan as on March 31, 2007

Dr.			Cr.		
Gross Liabilities	Liabilities	Expected to Rank	Assets	Book Value	Estimated to Produce
Rs.	Rs.	Rs.		Rs.	Rs.
26,580	Unsecured Creditors as per list A	23,580	Property as per List E, viz.		
			Cash in Hand	80	80
16,000	Creditors fully secured as per list B	16,000	Stock-in-Trade	8,000	5,550
			Plant and Machinery	14,000	2,000
			Fixtures and Fittings	800	350
	Estimated value of securities	<u>20,000</u>	Book Debts as per List F, viz.		
	Surplus to contra	<u>4,000</u>	Good	6,000	6,000
			Doubtful	2,000	600
12,000	Creditors partly secured as per List C	12,000	Bad	<u>500</u>	
	Estimated value of securities	<u>4,000</u>		<u>31,380</u>	<u>14,580</u>
		8,000	Surplus from securities in the hands of creditors fully secured		<u>4,000</u>
					18,580
200	Creditors for taxes, Wages, etc. being Payable in full as Per List D	200	Deduct creditors for taxes, wages, etc. as per List D		<u>200</u>
	Deducted as per contra	<u>200</u>	Deficiency as explained in List H		<u>18,380</u>
		-			13,200
<u>54,780</u>		<u>31,580</u>			<u>31,580</u>

Note : The unsecured creditors in this case are as follows :

	Rs.
Sundry Creditors	20,000
Landlord*	200
Salary to Clerk*	180
Mrs. Mohan's Loan (since moneys were provided by Mohan)	nil
Bills Discounted	<u>3,200</u>
	<u>23,580</u>

* The Provincial Insolvency Act applies. In this case, landlord is not preferential. Salary is preferential only up to Rs. 20 per clerk.

Deficiency Account (List H)

	Rs.		Rs.
Excess of Assets over Liabilities on 1 st April, 2002	33,000	Net loss arising from carrying on of business from 1 st April, 2002 to date of adjudication	5,200
Net Profit arising from carrying on of business from 1 st April, 2002 to date of adjudication after meeting usual trade expenses	7,000	Bad Debts as per List F	1,900
Income or profit from other sources since 1 st April 2002	-	Expenses incurred since 1 st April, 2002 other than usual business expenses, viz., Household Expenses (drawings)	15,000
Private Life Policy	4,000	Loss on realisation of:	
Loan from Mrs. Mohan,		Stock in trade	2,450
being not payable	3,000	Freehold Property	20,000
Deficiency as per Statement of Affairs	13,200	Plant & Machinery	12,000
		Fixtures & Fittings	450
		Loss on Payment of bills discounted	3,200
	<u>60,200</u>		<u>38,100</u>
			<u>60,200</u>

20. (a) The primary objective of commercial accounting is to ascertain the gain or loss of an enterprise for a given period and to find out the position of assets and liabilities at the end of the accounting period. Against this, government accounts are designed to enable government to determine how much money it needs to mobilize in order to maintain its necessary activities at the proper standard of efficiency. It is thus clear that the purpose of government accounting is totally different from that of commercial accounting. The other broad differences between government accounting and commercial accounting can be enumerated as follows :
- Financial Statements : Every commercial enterprise prepares a profit and loss account and a Balance Sheet. But in case of government accounting, following two statements are generally prepared:
 - Government account — to show the net result of all incomes and expenditure including expenditure on capital account ;
 - Statement of balancing accounts — to show whether the government owes or has to receive money.
 - Method of accounting : Government accounts are maintained on cash basis as against commercial accounting in which accounts are normally maintained on mercantile basis.
 - System of accounting : In commercial accounting, double entry system of book keeping is followed. On the other hand, mass of the government accounts are kept on single entry. There is, however, a portion of accounts which is maintained on double entry basis.
 - Classification of accounts : In commercial accounting, accounts are broadly classified into (i) personal (ii) real, and (iii) nominal accounts. Government accounts are kept in three parts : Part I – Consolidated fund ; Part II – Contingency fund ; and Part III – Public account.
 - Classification of financial transactions : One of the most distinctive features of the system of government accounts in India is the minute elaboration with which the financial transactions of government under both receipts and payments, are differentiated and classified. Government expenditure in India is classified into a five tier system : Sectors, Major heads, Minor heads, Sub-heads and Detailed heads of accounts. In case of commercial accounting, no such elaborate details are provided.

- (b) The features of farm accounting are as follows:
- (i) Agricultural sector in India is unorganized and dominated by small farmers. Most agricultural farms are family oriented and part of the farms produce is consumed by the family members. Level of the education of the average farmers appears to be the principal barrier for adaptation of agricultural accounting system. Farmers are not aware of the technique of using accounting data for the purpose of management decision and usefulness of data base management.
 - (ii) The family takes part in management and provides labour for the farm. Farmers cannot afford the additional expenses involved in hiring a person to maintain accounts.
 - (iii) Agriculture is in some cases a seasonal occupation and many farmers have other occupations also. Farming operations are uncertain due to natural calamities.
 - (iv) There are many divisions in farm accounting. Finished product of one division can become the raw material for another.
 - (v) Tax authorities do not rigorously insist on maintenance of books of account. Collection of statistics by the government is also not adequate.
21. (a) SEBI guidelines regarding issue of convertible debentures for disclosure and investor protection are as follows :
- (i) Issue of Fully Convertible Debentures (FCDs) having a conversion period of more than 36 months will not be permissible, unless conversion is made optional with "put" and "call" option.
 - (ii) No company shall make a public issue or rights issue of debts instruments (whether convertible or not), unless credit rating of not less than investment grade is obtained from not less than two registered credit rating agencies and disclosed in the offer document. All the credit ratings including the unaccepted credit ratings shall be disclosed.
 - (iii) All the credit ratings obtained during the 3 years preceding the public or rights issue of convertible debentures for any listed security of the issuer company shall be disclosed in the offer document.
 - (iv) No company shall issue a prospectus or a letter of offer to the public for subscription of its debentures without the appointment of a debenture trustees or creation of Debenture Redemption Reserve, in accordance with the provisions of the Companies Act, 1956. The names of the debenture trustees shall be stated in the Offer Document and also in all the subsequent periodical communication. Also a trust deed shall be executed within 3 months of the closure of the issue.
 - (v) The merchant banker shall ensure that the security created is adequate to ensure 100% asset cover for the debentures and is free from any encumbrances and also the necessary permissions to mortgage the assets or No objection certificate for a second or pari passu charged in cases where assets are encumbered have been obtained.
 - (vi) Premium amount on conversion and time of conversion, shall be predetermined by the issuer company and stated in the prospectus. Interest rates for the above debentures will also be freely determined by the issuer company.
 - (vii) Any conversion in part or whole of the debentures will be optional in the hands of the debentureholders, if the conversion takes place at or after 18 months from the date of allotment, but before 36 months.
 - (viii) Premium amount at the time of conversion for the Partly Convertible Debentures (PCD) shall be predetermined and stated in the prospectus. Redemption amount, period of maturity, yield on redemption for the PCDs or NCDs shall also be indicated in the prospectus.

- (ix) In case, the non-convertible portions of PCDs or NCDs are to be rolled over with or without change in the interest rate, a compulsory option should be given to those debentureholders who want to withdraw and encash from the debenture programme. Roll over shall be done only in cases where debentureholders have sent their positive consent and not on the basis of the non-receipt of their negative reply.
 - (x) Before roll over of any NCDs or non-convertible portion of the PCDs, at least two credit ratings of not less than investment grade shall be obtained within a period of six months prior to the due date of redemption and communicated to debentureholders before roll over and fresh trust deed shall be made.
 - (xi) Letter of information regarding roll over shall be vetted by SEBI with regard to the credit ratings, debentureholder's resolution, option for conversion and such other items which SEBI may prescribe from time to time.
 - (xii) The disclosures relating to raising of debentures will contain, amongst other things, the existing and future equity and long term debt ratio, servicing behaviour on existing debentures, payment of due interest on due dates on long term loans and debentures, certificate from a financial institution or bankers about their no objection for a second or pari passu charge created in favour of the trustees to the proposed debenture issues.
 - (xiii) SEBI may prescribe additional disclosure requirement from time to time, after due notice.
- (b) To distribute cash as and when it is realized (Piecemeal Distribution of Cash): In this case, cash is utilized for settlement as and when it is available for distribution. The accounts are settled in the following order:
- (i) Secured Liabilities: Secured liabilities are paid out of the cash realized by sale of mortgaged asset. Portion of liability not covered by the amount realised is treated as unsecured liability. However, if assets other than the mortgaged asset are realized first, then secured liabilities are treated at par with unsecured liabilities till the realization of mortgaged asset.
 - (ii) Unsecured Liabilities: After settling secured liabilities, unsecured liabilities are settled. If the amount available is not sufficient to clear all unsecured liabilities, it is distributed rateably among all unsecured liabilities.
 - (iii) Partners' Loan: After settling outside liabilities, partners' loan are settled rateably.
 - (iv) Settlement of capital accounts of partners: The balance of capital accounts on the date of dissolution after adjustment for drawings, accumulated losses, reserves, accumulated profits etc. are settled by following anyone of the two methods given below:-
 - a. Proportionate Capital Method.
 - b. Maximum Loss Method.
22. (a) Reasonable Return: The law seeks to prevent an electricity undertaking from earning too high profit. For this purpose, "reasonable return" has been defined as consisting of:
- (a) An yield at the standard rate which is Reserve Bank rate plus two per cent on the capital base as defined below;
 - (b) Income derived from investment except investment made against Contingencies Reserve;
 - (c) An amount equal to $\frac{1}{2}$ percent on loans advanced by the Electricity Board;
 - (d) An amount equal to $\frac{1}{2}\%$ on the amounts borrowed from organizations or institutions approved by the State Government;
 - (e) An amount equal to $\frac{1}{2}\%$ on the amount raised by the issue of debentures;
 - (f) An amount equal to $\frac{1}{2}\%$ on balance of Development Reserve; and

- (g) Such other amounts as may be allowed by the Central Government having regard to the prevailing tax structure in the country.
- (b) Foreign Branches: Foreign branches generally maintain independent and complete record of business transacted by them in currency of the country in which they operate. Thus problems of incorporating balances of foreign branches relate mainly to translation of foreign currency into Indian rupees. This is because exchange rate of Indian rupees is not stable in relation to foreign currencies due to international demand and supply effects on various currencies.
- (c) The Companies (Amendment) Act, 1999 introduced through section 79A a new type of equity shares called 'Sweat Equity Shares'. The expression 'sweat equity shares' means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions by whatever name called.

Notwithstanding anything contained in section 79, which deals with the power of a company to issue shares at a discount, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:-

- (i) the issue of sweat equity shares is authorised by a special resolution passed by the company in the general meeting.
- (ii) the resolution specifies the number of shares, current market price, the consideration if any, and the class or classes of directors or employees to whom such equity shares are to be issued.
- (iii) not less than one year has, at the time of the issue, elapsed since the date on which the company was entitled to commence business.
- (iv) the sweat equity shares of company, whose equity shares are listed on a recognised stock exchange, are issued in accordance with the regulations made by the Securities and Exchange Board of India in this behalf. But in the case of company whose equity shares are not listed on any recognised stock exchange, the sweat equity shares are issued in accordance with the guidelines as may be prescribed.

All the limitations, restrictions and provisions relating to equity shares are applicable to sweat equity shares also.

23. (a) Classification of the items into timing and permanent differences is as under :-

- (i) Interest paid to bank is a timing difference.
- (ii) Difference in depreciation rates is a timing difference.
- (iii) Unabsorbed losses is a timing difference.
- (iv) Revaluation Reserve is a permanent difference.

- (b) P Ltd. has direct economic interest in R Ltd to the extent of 14%, and through Q Ltd. in which it is the majority shareholders, it has further control of 12% in R Ltd. (60% of Q Ltd's 20%). These two taken together (14% + 12%) make the total control of 26%.

AS 18 defines related party as one that has at any time during the reporting period, the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Here, Control is defined as ownership directly or indirectly of more than one-half of the voting power of an enterprise; and

Significant Influence is defined as participation in the financial and/or operating policy decisions of an enterprise but not control of those policies.

In the present case, control of P Ltd. in R Ltd. directly and through Q Ltd., does not go beyond 26%. However, significant influence may be exercised as an investing party (P Ltd.)

holds, directly or indirectly through intermediaries 20% or more of the voting power of the R Ltd.

As R Ltd. is a listed company and regularly supplies goods to P Ltd. Hence, related party disclosure, as per AS 18, is required.

- (c) Following are the criteria for classifying an enterprise as Level -I enterprise:
- (i) Enterprises, whose equity or debt securities are listed or is in the process of being listed in India.
 - (ii) Banks (including co-operative banks), Insurance companies and Financial Institutions.
 - (iii) All commercial, industrial and other business reporting enterprises whose turnover during the previous year is in excess of Rs.50 crores. Here turnover does not include 'other income'.
 - (iv) All commercial, industrial and other business reporting enterprises whose total borrowings including public deposits during the accounting year exceeds Rs.10 crores.
 - (v) Holding and subsidiary companies of any of the above enterprises at any time during the accounting year.
- (d) The objective of AS 27 on Financial Reporting of Interests in Joint Ventures is to set out principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors.
- (e) Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognized as intangible assets.
- Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognized as intangible assets.
- (f) Leases are classified based on the extent to which risks and rewards incident to ownership of a leased asset lie with the Lessor or the Lessee.
- Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return due to changing economic conditions.
- Rewards may be represented by the expectation of profitable operation over the economic life of the asset and of gain from appreciation in value or realisation of residual value.
- A lease is called a Finance Lease if it transfers substantially all the risks and rewards incident to ownership. Title may or may not eventually be transferred. A lease is called an Operating Lease if it does not transfer substantially all the risks and rewards incident to ownership.
- (g) 1. Principle: As per Para 41 of AS 20, "Potential Equity Shares are anti-dilutive when their conversion to equity shares would increase EPS from continuing ordinary activities or decrease loss per share from continuing ordinary activities. The effects of anti-dilutive Potential Equity shares are ignored in calculating Diluted EPS".
2. Analysis: The above assessment of dilutive/anti-dilutive effect should be performed in each reporting period and accordingly, the same Potential Equity Shares may in the subsequent year become dilutive in nature and would need to be considered in calculating Dilutive EPS.
3. Conclusion: Potential Equity Shares that were not considered in previous year because they were anti-dilutive, can be considered in the current period if they are dilutive. If Potential Equity Shares that were not considered in previous year because they were anti-dilutive are considered in the current period, prior period EPS does not require to be restated.

- (h) 1. Prior Determination of item: Segment Revenue, Segment Expense, Segment Assets and Segment Liabilities are determined before intra-enterprise balances.
- 2. Elimination: Intra-enterprise transactions are eliminated as part of the process of preparation of enterprise Financial Statements.
- 3. No-elimination: When intra-enterprise balances and transactions are within a single segment, they are NOT eliminated.

- (i) Paragraphs 8 and 14 of AS 12 on 'Accounting for Government Grants' deal with presentation of government grants related to specific fixed assets.

Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Where the grant related to a specific fixed asset equals the whole, or virtually the whole, of the cost of the asset, the asset should be shown in the balance sheet at a nominal value. Alternatively, government grants related to depreciable fixed assets may be treated as deferred income which should be recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset, i.e., such grants should be allocated to income over the periods and in proportion in which depreciation on those assets is charged. Grants related to non-depreciable assets should be credited to capital reserve under this method. However, if a grant related to a non-depreciable asset requires the fulfillment of certain obligations, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income balance should be separately disclosed in the financial statements.

- (j) Recognition is the "process of incorporating in the Balance Sheet or Statement of Profit and Loss, an item that meets the definition of an element and satisfies the criteria for recognition".

The definition of Assets, liabilities, income and expenses are fundamental to recognition, both at annual and interim financial reporting dates.

The measurement procedures to be followed should be designed to ensure that the resulting information is reliable and that all relevant material financial information is appropriately disclosed. The preparation of interim financial reports generally requires a greater use of estimation methods than annual financial reports.

An enterprise should apply the same accounting policies in its interim financial statements as are applied in its Annual Financial Statements, except for accounting policy changes made after the date of the most recent Annual Financial Statements that are to be reflected in the next Annual Financial Statements.

The frequency of an enterprise's reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. Hence, measurements for interim reporting purposes should be made on a year-to-date basis.

- (k) The amount refundable in respect of a grant related to revenue should be applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount should be charged to profit and loss statement. The amount refundable in respect of a grant related to a specific fixed asset should be recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

24. (a)

In the Books of Modern Silk Mills Pvt. Ltd. (i.e. Lessor)
Journal Entries

01.04.2005	Bank A/c	Dr.	10,50,000	
	To Lease Rent Advance A/c (Being lease rent for five years received in advance)			10,50,000
	Repairs & Maintenance A/c	Dr.	4,700	
	To Bank A/c (Being expenditure paid for repairs and maintenance of the leased looms)			4,700
31.03.2006	Lease Rent in Advance A/c	Dr.	2,10,000	
	To Lease Rent A/c (Being current year's lease rent i.e. Rs. 10,50,000 ÷ 5 = Rs. 2,10,000 accounted)			2,10,000
	Lease Rent A/c	Dr.	2,10,000	
	To Profit & Loss A/c (Being current year lease rent transferred to P & L A/c)			2,10,000
	Depreciation A/c	Dr.	1,53,333	
	To Looms A/c (Being depreciation @ 33 1/3% on WDV of looms charged)			1,53,333
	Profit & Loss A/c	Dr.	1,58,033	
	To Repairs & Maintenance A/c To Depreciation A/c (Being depreciation and expenses on looms transferred to P & L A/c)			4,700 1,53,333
01.04.2006	Repairs & Maintenance A/c	Dr.	5,200	
	To Bank A/c (Being expenditure paid for repairs and Maintenance of leased Looms)			5,200
31.03.2007	Lease Rent in Advance A/c	Dr.	2,10,000	
	To Lease Rent A/c (Being current year's lease rent accounted)			2,10,000
	Depreciation A/c	Dr.	1,02,222	
	To Looms A/c (Being depreciation @ 33 1/3 % on Rs. 4,60,000 – Rs. 1,53,333 WDV on looms charged)			1,02,222

Lease Rent A/c	Dr.	2,10,000	
To Profit & Loss A/c			2,10,000
(Being current year's lease rent transferred to P & L A/c)			

Profit & Loss A/c	Dr.	1,07,422	
To Repairs & Maintenance A/c			5,200
To Depreciation A/c			1,02,222
(Being depreciation and expenses on looms transferred to P & L A/c)			

In the Books of Modern Silk Mills Pvt. Ltd.
Ledgers for 2005-06 and 2006-07
Lease Rent in Advance A/c

Dr.					Cr.
31.03.2006	To Lease Rent A/c	2,10,000	01.04.2005	By Bank A/c	10,50,000
31.03.2006	To Balance c/d	8,40,000			
		<u>10,50,000</u>			<u>10,50,000</u>
31.03.2007	To Lease Rent A/c	2,10,000	01.04.2006	By Balance b/d	8,40,000
31.03.2007	To Balance c/d	6,30,000			
		<u>8,40,000</u>			<u>8,40,000</u>

Lease Rent A/c

Dr.					Cr.
31.03.2006	To P & L A/c	2,10,000	31.03.2006	By Lease Rent in Advance A/c	2,10,000
		<u>2,10,000</u>			<u>2,10,000</u>
31.03.2007	To P & L A/c	2,10,000	31.03.2007	By Lease Rent in Advance A/c	2,10,000
		<u>2,10,000</u>			<u>2,10,000</u>

Repairs & Maintenance A/c

Dr.					Cr.
01.04.2005	To Bank A/c	4,700	31.03.2006	By P & L A/c	4,700
		<u>4,700</u>			<u>4,700</u>
01.04.2006	To Bank A/c	5,200	31.03.2007	By P & L A/c	5,200
		<u>5,200</u>			<u>5,200</u>

Depreciation on Looms A/c

Dr.				Cr.	
31.03.2006	To Looms A/c	1,53,333	31.03.2006	By P & L A/c	1,53,333
		<u>1,53,333</u>			<u>1,53,333</u>
31.03.2007	To Looms A/c	1,02,222	31.03.2007	By P & L A/c	1,02,222
		<u>1,02,222</u>			<u>1,02,222</u>

Extract of Profit & Loss A/c for the year ended 31.03.2006

Dr.				Cr.
To Repairs & Maintenance A/c	4,700	By Lease Rent A/c		2,10,000
To Depreciation on Looms A/c	1,53,333			

Extract of Balance Sheet as on 31.03.2006

Liabilities	Rs.	Assets	Rs.
Lease Rent in Advance A/c	8,40,000	Looms	4,60,000
		Less : Depreciation	<u>1,53,333</u>
			3,06,667

Extract of Profit & Loss A/c for the year ended 31.03.2007

Dr.				Cr.
Particulars	Rs.	Particulars		Rs.
To Repairs & Maintenance A/c	5,200	By Lease Rent A/c		2,10,000
To Depreciation on Looms A/c	1,02,222			

Extract of Balance Sheet as on 31.03.2007

Liabilities	Rs.	Assets	Rs.
Lease Rent in Advance A/c	6,30,000	Looms	3,06,667
		Less : Depreciation	<u>1,02,222</u>
			2,04,445

(b)	Calculation of Earnings Per Share (EPS)	(Rs. In crores)
	Profit after depreciation but before VRS Payment	75.00
	Less: Depreciation – No adjustment required	-
	VRS payments	32.10
	Provision for taxation	10.00
	Fringe benefit tax	<u>5.00</u>
	Net Profit	<u>27.90</u>
	No. of shares	9.30 crores
	$\text{EPS} = \frac{\text{Net profit}}{\text{No. of shares}} = \frac{27.90}{9.30} = \text{Rs.3 per share.}$	

- (c) Paragraph 21 of Accounting Standard 6 on 'Depreciation Accounting' says, "The depreciation method selected should be applied consistently from period to period. A

change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise."

The paragraph also mentions the procedure to be followed when such a change in the method of depreciation is made by an enterprise. As per the said paragraph, depreciation should be recalculated in accordance with the new method from the date of the asset coming to use. The difference in the amount, being deficiency or surplus from retrospective recomputation should be adjusted in the profit and loss account in the year such change is effected. Since such a change amounts to a change in the accounting policy, it should be properly quantified and disclosed. In the question given, the surplus arising out of retrospective recomputation of depreciation as per the straight line method is Rs. 12.23 lakhs (Rs. 32.23 lakhs – Rs. 20 lakhs). This should be written back to Profit and Loss Account and should be disclosed accordingly.

- (d) (i) Paragraph 8.4 and 13 of Accounting Standard 9 on 'Revenue Recognition' states that dividends from investments in shares are not recognised in the statement of profit and loss until a right to receive payment is established.
- (ii) In the given case, the dividend is proposed on 10th April, 2006, while it is declared on 15th June, 2006. Hence, the right to receive payment is established on 15th June, 2006. As per the above mentioned paragraphs, income from dividend on units of mutual funds should be recognised by X Ltd. in the financial year ended 31st March, 2007.
- (iii) The recognition of Rs. 10 lakhs on accrual basis in the financial year 2005-2006 is not as per AS 9 'Revenue Recognition'.

(e) Result of the first quarter ended 31st March, 2007

		(Rs. in crores)
Turnover		50
Add: Other Income		<u>Nil</u>
Total		50
Less: Change in inventories	Nil	
Salaries and other cost	30	
Administrative and selling expenses (8 + 2)	<u>10</u>	<u>40</u>
Profit		<u>10</u>

As per AS 25 on Interim Financial Reporting, the income and expense should be recognised when they are earned and incurred respectively. As per para 38 of AS 25, the costs should be anticipated or deferred only when

- (i) it is appropriate to anticipate that type of cost at the end of the financial year, and
- (ii) costs are incurred unevenly during the financial year of an enterprise.

Therefore, the argument given by the company relating to deferment of Rs. 21 crores is not tenable as expenditures are uniform through out all quarters.

- (f) As per para 14.4, and para 32 of AS 10 loss of Rs. 150 lakhs should be taken to Revaluation reserve corresponding to these assets. Surplus of revaluation reserve following the retirement or disposal of an asset which relates to that asset may be transferred to general reserve. (Debit profit on sale of property, and credit loss on sale, and credit general reserve).
- (g) According to para 10 of AS 18 on Related Party Disclosures, parties are considered to be related if at any time during the reporting period one party has the ability to control the other

party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Raj, a relative of key management personnel should be identified as relative as at the closing date i.e. on 31.3.2007.

- (h) Paragraph 33 of AS 22 on "Accounting for Taxes on Income" relates to the transitional provisions. It says, "On the first occasion that the taxes on income are accounted for in accordance with this statement, the enterprise should recognise, in the financial statements, the deferred tax balance that has accumulated prior to the adoption of this statement as deferred tax asset/liability with a corresponding credit/charge to the revenue reserves, subject to the consideration of prudence in case of deferred tax assets."

Further Paragraph 34 lays down, "For the purpose of determining accumulated deferred tax in the period in which this statement is applied for the first time, the opening balances of assets and liabilities for accounting purposes and for tax purposes are compared and the differences, if any, are determined. The tax effects of these differences, if any, should be recognised as deferred tax assets or liabilities, if these differences are timing differences."

Therefore, in the case of XYZ, even though AS 22 has come into effect from 1.4.2001, the transitional provisions permit adjustment of deferred tax liability/asset upto the previous year to be adjusted from opening reserve. In other words, the deferred taxes not provided for alone can be adjusted against opening reserves.

Provision for deferred tax asset/liability for the current year should be routed through profit and loss account like normal provision.

- (i) As per para 9.2 of AS 9 on Revenue Recognition, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g. for escalation of price, export incentives, interest etc, revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of service even though payments are made by instalments.

Thus, SCL Ltd. cannot recognise the interest amount unless the company actually receives it. 10% rate of recovery on overdue outstandings is also an estimate and is not certain. Hence, the company is advised to recognise interest receivable only on receipt basis.

- (j) As per para 44 of AS-26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria has been established upon completion of detailed programme design or working model. In this case, Rs. 45,000 would be recorded as an expense (Rs. 25,000 for completion of detailed program design and Rs. 20,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (Rs. 42,000 + Rs. 12,000 + Rs.13,000) Rs. 67,000.

ACCOUNTING STANDARDS

Accounting Standard (AS) 15 (revised 2005) on 'Employee Benefits' comes into effect in respect of accounting periods commencing on or after April 1, 2006. AS 15 (revised 2005) was originally published in March, 2005 issue of the ICAI's Journal 'The Chartered Accountant'. Subsequently, the ICAI, in January 2006, made limited revision to AS 15 (revised 2005) primarily with a view to bring the disclosure requirements of the standard relating to the defined benefit plans in line with the corresponding International Accounting Standard (IAS) 19, Employee Benefits; to clarify the application of the transitional provisions; and to provide relaxation/exemption to the small and medium-sized enterprises (SMEs). The limited revision has been duly incorporated by the ICAI in AS 15 (revised 2005), which has been published in the 'The Chartered Accountant', March 2006 (page nos. 1354 to 1385).

Note: AS 1 to AS 29 [including AS 15 (Revised 2005)] are applicable for May, 2008 Examination

ACCOUNTING STANDARDS INTERPRETATIONS

The authority of the Accounting Standards Interpretations (ASI) is the same as that of the Accounting Standard to which it relates. The contents of the ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items. The Institute of Chartered Accountants of India has, so far, issued 30 ASIs and has also revised some of the existing ASIs. These interpretations are available at the institute's website www.icai.org. The same can also be seen from the Compendium of the Accounting Standards (as on July 1, 2006).

ANNOUNCEMENT

Withdrawal of the Announcement issued by the Council on 'Treatment of exchange differences under Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates vis-à-vis Schedule VI to the Companies Act, 1956'

1. The Council of the Institute of Chartered Accountants of India had issued an Announcement on 'Treatment of exchange differences under Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates vis-à-vis Schedule VI to the Companies Act, 1956', which was published in the November 2003 issue of 'The Chartered Accountant' (pp. 497)
2. Subsequent to the issuance of the above Announcement, the Ministry of Company Affairs (now known as the Ministry of Corporate Affairs) issued the Companies (Accounting Standards) Rules, 2006, by way of Notification in the Official Gazette dated 7th December, 2006. As per Rule 3(2) of the said Rules, the Accounting Standards shall come into effect in respect of accounting periods commencing on or after the publication of these accounting standards under the said Notification.
3. AS 11, as published in the above Government Notification, carries a footnote that "it may be noted that the accounting treatment of exchange differences contained in this Standard is required to be followed irrespective of the relevant provisions of Schedule VI to the Companies Act, 1956".
4. In view of the above footnote to AS 11, the Council of the Institute of Chartered Accountants of India has decided at its 269th meeting held on July 18, 2007, to withdraw the Announcement on 'Treatment of exchange differences under Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates vis-à-vis Schedule VI to the Companies Act, 1956', published in 'The Chartered Accountant' of November 2003. Accordingly, the accounting treatment of exchange differences contained in AS 11 notified as above is applicable and not the requirements of Schedule VI to the Act, in respect of accounting periods commencing on or after 7th December, 2006.

Students are advised to refer the following rates of Non-Performing Assets in case of Banking Companies

PROVISIONS

Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and the erosion over time in the value of security charged to the banks, it has been decided that banks should make provision against sub-standard assets, doubtful assets and loss assets on the following basis:

- (a) Loss assets : The entire amount should be written off or full provision should be made for the amount outstanding.
- (b) Doubtful assets : (i) Full provision to the extent of the unsecured portion should be made. In doing so, the realisable value of the security available to the bank should be determined on a realistic basis. DICGC/ECGC cover is also taken into account (this aspect is discussed later in this chapter). In case the advance covered by CGTSI guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion should be provided for as per the extant guidelines on provisioning for non-performing advances.
(ii) Additionally, 20% - 100% of the secured portion should be provided for, depending upon the period for which the advance has been considered as a doubtful asset, as follows:

Period for which the advance has been considered as doubtful	% of provision on secured portion
Upto 1 year	20%
More than 1 year and upto 3 years	30%
More than three years	
i. Outstanding stock of NPA's as on 31.03.2004	60% w.e.f. 31.03.2005
	75% w.e.f. 31.03.2006
	100% w.e.f. 31.03.2007
ii. Advances classified as doubtful for more than three years on or after 01.04.2004	100% w.e.f. 31.03.2005

- (iii) Banks are permitted to phase the additional provisioning consequent upon the reduction in the transition period from substandard to doubtful asset from 18 to 12 months over a four year period commencing from the year ending March 31, 2005, with a minimum of 20% each year.
- (c) Sub-standard assets : A general provision of 10% on total outstanding should be made without making any allowance for DICGC/ECGC cover and securities available. An additional provision of 10% (i.e., total 20% of total outstanding) is required to be made on 'unsecured exposure' ab initio sanction of loan. Generally such a situation may arise in case of personal and education loans etc. Unsecured exposure is defined as 'an exposure where the realizable value of security is not more than 10% of the outstanding exposure (fund based and non-fund based). Security should not include guarantees, comfort letters etc
- (d) Standard assets : A general provision of a minimum of 0.40% of total standard assets should be made. It has been clarified that the provision should be made on global loan portfolio basis and not on domestic advances alone.

For the practice of students following illustrations are given below:

Illustration 1 (Existing stock of advances classified as 'doubtful more than 3 years' as on 31 March, 2004.)

The outstanding amount as on 31st March, 2004: Rs.25,000.

Realisable value of security: Rs.20,000.

Period for which the advance has remained in 'doubtful' category as on 31st March, 2004: 4 years (i.e., Doubtful more than 3 years)

Solution:

Provisioning requirement:

As on....	Provisions on secured portion		Provisions on unsecured portion		Total (Rs.)
	Rate (in %)	Amount	Rate (in %)	Amount	
31 March 2004	50	10,000	100	5,000	15,000
31 March 2005	60	12,000	100	5,000	17,000
31 March 2006	75	15,000	100	5,000	20,000
31 March 2007	100	20,000	100	5,000	25,000

Illustration 2 (Advances classified as 'doubtful more than three years' on or after 1 April, 2004.)

The outstanding amount (funded as well as unfunded) as on 31st March, 2004: Rs.10,000

Realisable value of security: Rs.8,000

Period for which the advance has remained in 'doubtful' category as on 31st March, 2004: 2.5 years.

Solution:

Provisioning requirement:

As on...	Asset Classification	Provisions on secured portion		Provisions on unsecured portion		Total (Rs.)
		%	Amount	%	Amount	
31 March, 2004	Doubtful 1 to 3 years	30	2,400	100	2,000	4,400
31 March, 2005	Doubtful more than 3 years	100	8,000	100	2,000	10,000