

Qn. 1. Answer the following questions :

10 x 2 = 20

- (i) Goods worth Rs. 5,00,000 were destroyed due to flood in September, 2006. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim in the financial year 2006-07.
In March, 2008, the claim was passed and the company received a payment of Rs. 3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2008.
- (ii) Briefly indicate the items which are included in the expressions "Borrowing Cost" as per AS-16.
- (iii) Sterling Ltd. purchased a plant for US \$ 20,000 on 31st December, 07 payable after 4 months. The company entered into a forward contract for 4 months @ Rs. 48.85 per dollar. On 31st December, 07, the exchange rate was Rs. 47.50 per dollar.
How will you recognise the profit or loss on forward contract in the books of Sterling Limited for the year ended 31st March, 2008.
- (iv) A company created a provision of Rs. 75,000 for staff welfare while preparing the financial statements for the year 2007-08. On 31st March, in a meeting with staff welfare association, it was decided to increase the amount of provision for staff welfare to Rs. 1,00,000. The accounts were approved by Board of directors on 15th April, 2008.
Explain the treatment of such revision in financial statements for the year ended 31st March, 2008.
- (v) Explain "Employee's stock option plan".
- (vi) A company entered into an agreement to sell its immovable property to another company for 35 lakhs. The property was shown in the Balance Sheet at Rs. 7 lakhs. The agreement to sell was concluded on 15th February, 2008 and sale deed was registered on 30th April, 2008. The financial statements for the year 2007-08 were approved by the board on 12th May, 08.
You are required to state, how this transaction would be dealt with in the financial statements for the year ended 31st March, 2008.
- (vii) A Ltd. entered into a binding contract with C Ltd. to buy a machine for Rs. 1,00,000. The machine is to be delivered on 15th February, 2009. On 1st January, 09 A Ltd. changed its process of production. The new process will not require the machine ordered and it shall have to be scrapped after delivery. The expected scrap value of the machine is nil.
Explain how A Ltd. should recognise the entire transaction in the books of account for the year ended 31st March, 2009.
- (viii) Goods are transferred from Department P to Department Q at a price 50% above cost.
If closing stock of Department Q is Rs. 27,000, compute the amount of stock reserve.
- (ix) X Ltd. received a revenue grant of Rs. 10 crores during 2006-07 from Government for welfare activities to be carried on by the company for its employees. The grant prescribed the conditions for utilisation.
However during the year 2008-09, it was found that the prescribed conditions were not fulfilled and the grant should be refunded to the Government.
State how this matter will have to be dealt with in the financial statements of X Ltd. for the year ended 2008-09.
- (x) "Conversion of debt into equity is a non-cash transaction." Comment.

Ans. (1) (i) As per "**Prudence**" concept given in **Accounting Standard 1** profits are not anticipated but recognised only when realized, due to uncertain future events.

In the present case that Company has done correct treatment in the financial year 2006-07. Since the claim has not been approved by the Insurance Company, it should not be recognised in the books.

Such Claim should be recognised in the statement of Profit & Loss when the claim is approved by the Insurance Company. It is an Extraordinary Item as per Accounting Standard 5 NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES. The nature and the amount of such extraordinary item should be disclosed in profit & loss A/c in a manner that its impact on current profit or loss can be perceived.

Ans. 1 (ii) As per **AS 16** Borrowing costs are defined as interest and other costs incurred relating to borrowing of funds. It includes the following costs or charges :

- ◆ Interest and commitment charges on borrowing.
- ◆ Amortization of discounts or provision relating to borrowing.
- ◆ Amortization of ancillary costs incurred in connection with arrangement of borrower.
- ◆ Finance charges when the asset acquired under finance leases.
- ◆ Exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

This statement does not deal with cost of owner's equity, including preference share capital.

Ans. 1 (iii) In this case the company has taken forward cover for purchasing plant & machinery therefore forward cover is taken for managing risk. As per **AS 11 Effect of changes in foreign exchange risks**, the forward premium/discount will be transferred to Profit & Loss Account.

Forward Premium = (Rs. 48.85 – Rs. 47.50) x \$ 20,000 = Rs. 27,000. This premium will be credited in the Profit & Loss account for the year ended 31.3.2008 in the books of Sterling Limited.

Ans. 1 (iv) Provision for staff welfare expenses is an Accounting Estimate as per AS 5. As per AS 5 the effect of a change in accounting estimate should be classified in following cases :

1. If an estimate pertains to ordinary activities, then change in accounting estimate should be classified as ordinary activities.
2. If estimates pertains to extra ordinary item, then change in accounting estimates should be classified as extraordinary.

In this case it is an ordinary item and its effect should be disclosed in net profit or loss for the period. Therefore Rs. 25,000 should be disclosed in the Statement of Profit & Loss separately as a constituent of net profit or loss for the period, so that its effect in the Statement of Profit & Loss can be perceived by the user of financial statement.

Ans. 1 (v) EMPLOYEES STOCK OPTION PLAN : The Companies (Amendment) Act 2000 has inserted a Section 2(15A) of the Companies Act, 1956, which states that "Employee Stock option" means the option given to the whole-time directors, officers or employee of a company, which gives such directors, officers or employees the benefit or right to purchase or subscribe at a future date, the securities offered by the company at a pre-determined price.

SEBI issued Employees Stock Option Scheme and Employee Stock Purchase Scheme Guidelines in 1999 under section 11 of the Securities and Exchange Board of India Act, 1992.

Ans. 1 (vi) As per **AS-4**, Assets and liabilities should be adjusted for events occurring after the balance sheet date which provide additional evidence to assist the estimation of amounts relating to conditions existing on the balance sheet date. In this case sale of immovable property was concluded before approval by the Board. This is clearly an event occurring after the balance sheet date. Agreement to sell was entered into before the balance sheet date. Registration of the sale deed simply provides additional information relating to the conditions existing on the balance sheet date. **So adjustments of assets are necessary.** In this case the following entry should be passed in the accounts as on 31.3.2008:

Receivables Account ----- Dr.	35 lacs (Assuming sale proceeds is not received yet)
To Fixed Assets Account	Rs. 7 lacs
To Profit on sale of fixed assets A/c	Rs. 28 lacs

Ans. 1 (vii) In this case commitment for buy a machine is a capital commitment. As per AS 29 Provision is required if any liability can be measured by using a substantial degree of estimation. A liability is present obligation of the enterprise arising from past events the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

From the definition of liability, it is clear that the commitment to buy the machine is a liability for the company.

If the machine has already delivered as on 31.3.2009 than the following entry should be passed in the accounts :

Machine Account ----- Dr	Rs. 1,00,000
To Cash/Bank/Liability for Fixed Assets	Rs. 1,00,000

Profit & Loss Account ----- Dr	Rs. 1,00,000 (Loss on purchase of machine)
To Machine Account	Rs. 1,00,000

Ans. 1 (viii) Stock Reserve = Value of Closing Stock of Deptt. Q x $\frac{50}{100 + \text{margin}}$

$$= \text{Rs. } 27,000 \times \frac{50}{100 + 50} = \text{Rs. } 9,000$$

Ans. 1 (ix) Refund of Government grants : Govt. grants become refundable because of non-fulfillment of the conditions attached to that grant. As per **AS 12** Refund of grants should be accounted for as under:

Refund of grants related to revenue—

- ♦ The amount of refund should be adjusted against any unamortised "deferred Govt. grants", if any.
- ♦ Remaining balance amount of refund should be charged to Profit and Loss Account as extraordinary item.

In this question it is not clear that out of the amount received Rs. 1 crore how much amount is utilized. Therefore we are assuming that the whole amount is lying in the unamortised deferred govt. grants account. It will be reversed and transferred to Profit & Loss Account for the year ended 31.3.2009 In the books of X Ltd., it should be shown as an Extra Ordinary Item.

Ans. 1 (x) True. Conversion of Debt instrument into Equity is non-cash transaction, because no cash inflow/outflow occurs in that case. Example of such a case is conversion of Fully Convertible Debentures (FCD) into Equity Shares.

Qn. 2. Sun Ltd. and Moon Ltd. were amalgamated on and from 1st April, 2009. A new company Star Ltd. was formed to take over the business of the existing companies. The Balance Sheets of Sun Ltd. and Moon Ltd. as at 31st March, 2009 are given below :

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(Rs. in Lakhs)					
Liabilities	Sun Ltd.	Moon Ltd.	Assets	Sun Ltd.	Moon Ltd.
Share Capital :			Fixed Assets		
Equity Shares of Rs. 100 each	400	375	Land & Building	275	200
12% Preference Shares of Rs. 100 each	150	100	Plant & Machinery	175	125
Reserves and Surplus			Investments	75	25
Revaluation reserve	75	50			
General reserve	85	75			
Investment allowance reserve	25	25			
P & L Account	25	15			
Secured Loan			Current Assets, Loans and Advances		
10% Debentures (Rs. 100 each)	30	15	Stock	175	125
Current Liabilities and Provisions :			Sundry Debtors	125	150
Sundry creditors	135	60	Bills Receivables	25	25
Acceptance	75	35	Cash and Bank balances	150	100
Total	1,000	750	Total	1,000	750

Additional information :

- (a) Star Ltd. will issue 5 equity shares for each equity share of Sun Ltd. and 4 equity shares for each equity share of Moon Ltd. The shares are to be issued @ Rs. 30 each, having a face value of Rs. 10 per share.
- (b) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of Star Ltd. at a price of Rs. 150 per share (face value Rs. 100).
- (c) 10% Debentureholders of Sun Ltd. and Moon Ltd. are discharged by Star Ltd., issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.
- (d) Investment allowance reserve is to be maintained for 4 more years.
- (e) Liquidation expenses are :
Sun Ltd. Rs. 2,00,000
Moon Ltd. Rs. 1,00,000
It was decided that these expenses would be borne by Star Ltd.
- (f) All the assets and liabilities of Sun Ltd. and Moon Ltd. are taken over at book value.
- (g) Authorised equity share capital of Star Ltd. is Rs. 5,00,00,000, divided into equity shares of Rs. 10 each. After issuing required number of shares to the Liquidators of Sun Ltd. and Moon Ltd., Star Ltd. issued balance shares to Public. The issue was fully subscribed.

Required :

Prepare the Balance Sheet of Star Ltd. as at 1st April, 2009 after amalgamation has been carried out on the basis of Amalgamation in the nature of Purchase.

Ans. 2 W.N. (1) Calculation of Purchase consideration

(Rs. Lacs)

(a) Particulars	Sun Ltd.	Moon Ltd.
Sun Ltd. – Star Ltd. will issue 5 equity Share for each equity share in Sun Ltd. 5 4 lacs shares x $\frac{5}{1}$ x 30 /-	600	--
Moon Ltd. – Star Ltd. will issue 4 equity share for each equity share in Moon Ltd. 4 3.75 lacs shares x $\frac{4}{1}$ x 30 /-	--	450
(b) Preference Shares		
Sun Ltd. – 1.50 lacs shares x 150/- each	225	--
Moon Ltd. – 1.00 lac shares x 150/- each	--	150
Purchase Consideration	825	600

**W.N. (2) Agreed value of Debentures
to be issued by Star Ltd.**

$$\text{Sun Ltd.} = \text{Rs. 30 lacs} \times \frac{10\%}{15\%} = \text{Rs. 20 lacs}$$

$$\text{Moon Ltd} = \text{Rs. 15 lacs} \times \frac{10\%}{15\%} = \text{Rs. 10 lacs}$$

W.N. (3) Calculation of Goodwill / Capital Reserve

(Rs.' lacs)

Particulars	Sun Ltd.	Moon Ltd.
Total of Assets side of Balance Sheet	1000	750
Less : <u>Liabilities taken over</u>		
10% Debentures (w.n. 2) 20	10	
Sundry Creditors 135	60	
Acceptance 75	35	105
Net Assets taken over =	770	645
Purchase consideration	825	600
Goodwill / (Capital Reserve)	55	(45)
Net Goodwill	10	

Balance Sheet of Star Ltd. as on 1.4.2009 after amalgamation of Sun Ltd. & Moon Ltd.

(Rs. Lacs)

Liabilities	Amount	Assets	Amount
<u>Authorised capital</u>		<u>Fixed Assets</u>	
50 lacs equity shares of Rs.10 each	500	Goodwill (w.n.5)	13
15% Preference Share Capital of Rs.100 each	250	Land & Building	475
<u>Issued & Paid up Capital</u>		Plant & machinery	300
50 lacs equity shares of Rs.10 each fully paid up	500	Investments	100
[Out of which 35 lacs equity shares of Rs.10 each fully paid up issued for consideration other than cash]		<u>Current Assets, Loans and Advances</u>	
2.5 Lacs 15% preference shares of Rs.100 each fully paid up	250	Stock	300
		Sundry debtors	275
		Bills receivables	50
		Cash & Bank balances (w.n. 4)	397
		<u>Misc. Expenditure</u>	

Reserve & surplus		Amalgamation Adjustment Account	50
Security Premium	825		
Investment Allowance Reserve	50		
Secured loan			
15% debentures of Rs.100 each	30		
Current liabilities & Provisions			
Sundry Creditors	195		
Acceptance	110		
	<u>1960</u>		<u>1960</u>

W.N. 4

Cash A/c

Particulars	Amount	Particulars	Amount
To Cash transferred from		By Goodwill A/c	3
Sun Ltd.	150	" Balance c/d	397
Moon Ltd.	100		
" Equity Share Capital	150		
	<u>400</u>		<u>400</u>

W.N. 5 Treatment of liquidation expenses of Sun Ltd. & Moon Ltd. / paid by Star Ltd.

Liquidation expenses of Rs.2 lacs one lac of Sun Ltd. & Moon Ltd. respectively will be treated as goodwill in the books of Star Ltd. Therefore total Goodwill of Star Ltd. = 10 + 3 = 13 lacs.

Qn. 3. The Balance Sheet of Dee Limited on 31st March, 2009 was as follows :

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Balance Sheet as at 31st March, 2009

Liabilities	Amount Rs.	Assets	Amount Rs.
Share capital :		Fixed assets (at cost less depreciation)	8,00,000
Authorised capital 50,000 equity shares of Rs. 10 each	<u>5,00,000</u>	Debenture redemption fund investments	2,00,000
Issued and subscribed capital 25,000 equity shares of Rs. 10 fully paid up	2,50,000	Cash balance	2,50,000
Reserves and surplus :		Other current assets	10,00,000
General reserve	2,75,000		
Profit and Loss A/c	1,00,000		
Debenture redemption reserve	2,50,000		
Secured loans :			
12% convertible debentures (5,000 Deb. of Rs. 100 each)	5,00,000		
Other secured loans	2,50,000		
Current liabilities and provisions	6,00,000		
Proposed dividend	25,000		
	<u>22,50,000</u>		<u>22,50,000</u>

At the General meeting it was resolved to :

1. Pay proposed dividend of .10% in cash.
2. Give existing shareholders the option to purchase one share of Rs. 10 each at Rs. 15 for every five shares held. This option was taken up by all the shareholders.
3. Redeem the debentures at a premium of 5% and also confer option to the debentureholders to convert 50% of their holding into equity shares at a predetermined price of Rs. 15 per share and balance payment to be made in cash.

Holders of 3,000 debentures opted to get their debentures redeemed in cash only while the rest opted for getting the same converted into equity shares as per the terms of issue. Debenture redemption fund investments realised Rs. 1,80,000 on sales.

You are required to redraft the Balance Sheet after giving effects to the right issue and redemption of debentures. Also show the calculations in respect of no. of equity shares issued and cash payment.

Ans. 3. Calculation of No. of Equity Shares issued

$$\text{Right shares issued} - \text{one shares for every five shares held} \quad 25000 \times \frac{1}{5} = 5000$$

Add : Equity shares issued on conversion of debentures

2000 Debentures x Rs.105 x 50%	=	<u>7000</u>

15/-		
Total no. of Equity Shares issued	=	12000

Calculation of Cash Payment

Proposed dividend paid (Rs.250000 x 10%)	=	Rs.25,000
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Payment on redemption of debentures

3000 Debentures @ 105/- per debenture	=	Rs. 315000
2000 Debentures @ 105/- per debenture x 50%	=	Rs. 105000

Total cash payment	=	Rs. 445000

W.N. (1)

Cash A/c

Cash A/c			
Particulars	Amount	Particulars	Amount
To Balance b/d	250000	By Proposed dividend paid	25000
" Equity Share Capital	50000	" 12% debentures	400000
" Security premium A/c	25000	" Premium on redemption of debentures A/c	20000
" Debenture redemption fund investment A/c	180000	" Balance c/d	60000
	505000		505000

Balance Sheet of Dec. limited as on 31.3.2009 after issue of Right Shares & Redemption of Debentures

Liabilities	Amount	Assets	Amount
<u>Share capital</u>		Fixed Assets (at cost less depreciation)	800000
Authorized capital		Cash balance	60000
50000 equity shares of Rs.10 each	500000	Other current assets	1000000
<u>Issued & Subscribed capital</u>			
37000 equity shares of			
rs.10 fully Paid up	370000		
<u>Reserve & Surplus</u>			
General Reserve	505000		
Profit & Loss Account	100000		
Security Premium a/c	35000		
[25000 + 35000 – 25000]			
<u>Secured loan</u>			
Other secured loan	250000		
Current liabilities & provisions	600000		
	<u>1860000</u>		<u>1860000</u>

Qn. 4. DM Ltd., Delhi has a branch in London. London branch is an integral foreign operation of DM Ltd. At the end of the year 31st March, 2009, the branch furnishes the following trial balance in U.K. Pound : **16**

Particulars	£ Dr.	£ Cr.
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Fixed assets (Acquired on 1st April, 2005)	24,000	
Stock as on 1st April, 2008	11,200	
Goods from Head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		96,000
	<u>1,22,000</u>	<u>1,22,000</u>

In head office books, the branch account stood as shown below :

London Branch A/c

Dr. Particulars	Amount Rs.	Particulars	Cr. Amount Rs.
To Balance B/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	49,26,000	By Balance C/d	17,20,000
	<u>69,36,000</u>		<u>69,36,000</u>

The following further information are given :

(a) Fixed assets are to be depreciated @ 10% p.a. on straight line basis.

(b) On 31st March, 2008 :

Expenses outstanding - £ 400

Prepaid expenses - £ 200

Closing stock - £ 8,000

(c) Rate of Exchange :

1st April, 2005 - Rs. 70 to £ 1

1st April, 2008 - Rs. 76 to £ 1

31st March, 2009 - Rs. 77 to £ 1

Average - Rs. 75 to £ 1

You are required to prepare :

- (1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees.
- (2) Trading and profit and loss A/c for the year ended 31st March, 2009 and the Balance Sheet as on that date of London branch as would appear in the books of Delhi head office of DM Ltd.

Ans 4.

In the books of DM Ltd. Delhi

Conversion of Foreign Branch Trial Balance into Indian currency for the year ended 31.3.2009

Particulars	£	Exchange rate	Amount Dr.	Cr.
Fixed Assets	21600	70	1512000	--
Depreciation on Fixed Assets	2400	70	168000	--
Opening Stock	11200	76	851200	--
Goods from Head Office	64000		4926000	--
Expenses	5000	75	375000	--
Outstanding expenses	400	77	--	30800
Prepaid Expenses	200	77	15400	--
Debtors	4800	77	369600	--

Creditors	3200	77	--	246400
Cash at Bank	1200	77	92400	--
Head office account	22800	--	--	1720000
Purchases	12000	75	900000	--
Sales	96000	75	--	7200000
Exchange difference (Balancing figure)			--	12400
			<u>9209600</u>	<u>9209600</u>

Trading & Profit and Loss a/c of London Branch for the year ended on 31.3.2009

Particulars	Amount	Particulars	Amount
To Opening Stock	851200	By Sales	7200000
" Purchases	900000	" Closing stock [£ 8000 X 77]	616000
" Goods from Head office	4926000		
" Gross profit	1138800		
	<u>7816000</u>		<u>7816000</u>
To Expenses	375000	By Gross profit	1138800
" Depreciation on Fixed Assets	168000	" Exchange difference	12400
" Net Profit	608200		
	<u>1151200</u>		<u>1151200</u>

Balance Sheet of London Branch as on 31.3.2009

Liabilities	Amount	Assets	Amount
<u>Head Office Account</u>			
Balance as per Trail Balance	1720000	Fixed Assets less depreciation	1512000
Add : Net profit	608200		
	<u>2328200</u>		
<u>Current Liabilities</u>		Current assets	
Creditors	246400	<u>Loan & Advances</u>	
Outstanding Expenses	30800	Closing stock	616000
		Debtors	369600
		Prepaid expenses	15400
		Cash at bank	92400
	<u>2605400</u>		<u>2605400</u>

Qn. 5. (a) From the following information, you are required to prepare Profit and Loss Account of Zee Bank Ltd., for the year ending 31st March, 2009 :

	Rs.		Rs.
Interest and Discount	44,00,000	Interest Expended	13,60,000
Other Income	1,25,000	Operating Expenses	13,31,000
Income on investments	5,000	Interest on balance with RBI	25,000

Additional information :

Rs.

(a) Rebate on bills discounted to be provided for Rs. 15,000

(b) Classification of advances :

Standard Assets	25,00,000
Sub-standard Assets	5,60,000
Doubtful Assets not covered by security	2,55,000
Doubtful Assets covered by security	
For 1 year	25,000
For 2 years	50,000
For 3 years	1,00,000
For 4 years	75,000
Loss Assets	1,00,000

(c) Make Tax Provision @ 35%

(d) Profit and Loss A/c (Cr.) Rs. 40,000.

Ans. 5 (a)

W.N.(1) Calculation of provision for Bad Debts on advances

Standard	0.40% x 25,00,000/-	=	10,000/-
Sub standard	10% x 5,60,000 /-	=	56,000/-

Doubtful Assets

Not covered by security	100% x 255000/-	=	255000/-
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Covered by security

For 1 year	20% x 25000/-	=	5000/-
One to three year	30% x 150000/-	=	45000/-
More than three years	100% x 75000/-	=	75000/-
Loss Assets	100% x 100000/-	=	100000/-

546000 / -

W.N. (2) Provisions & Contingencies

Rebate on Bill discounted	15000/-
Provisions on NPA	546000/-
Provisions for tax (35% x 1303000)	456050/-

	1017050/-

Profit & Loss Account of Zee Bank Ltd. for the year ended 31.3.2009

I. Income	Schedule	Amount [Current year figure]
Interest earned	13	44,30,000
Other income	14	<u>1,25,000</u>
Total		45,55,000
II. <u>Expenditure</u>		
Interest expended	15	1360000
Operating Expenses	16	1331000
Provisions & Contingencies		<u>1017050</u>
		<u>3708050</u>
III. <u>Profit / Loss</u>		
Net Profit for the year		846950
Profit brought forward		<u>40000</u>
		<u>886950</u>
IV. <u>Appropriations</u>		
Transfer to Statutory Reserve (25%)		211738
Balance Carried over to Balance Sheet		<u>675212</u>
		886950

Qn. 5 (b) Dee Limited furnishes the following Balance Sheet as at 31st March, 2008 :

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Liabilities	Rs. '000	Rs. '000
Share Capital :		
Authorised Capital		<u>30.00</u>
Issued and subscribed capital :		
2,50,000 equity shares of Rs. 10 each fully paid up	25,00	
2,000, 10% Preference shares of Rs. 100 each		
(Issued two months back for the purpose of buy back)	<u>2.00</u>	27,00
Reserves and surplus :		
Capital Reserve	10,00	
Revenue Reserve	30,00	

Securities premium	22,00	
Profit and loss A/c	<u>35,00</u>	
		97,00
Current liabilities and provisions :		<u>14,00</u>
		<u>1,38,00</u>

Assets	Rs. '000	Rs. '000
Fixed assets		93,00
Investments		30,00
Current assets, loans and advances (including cash and bank balance)		15,00
		<u>1,38,00</u>

The company passed a resolution to buy back 20% of its equity capital @ Rs. 50 per share. For this purpose, it sold all of its investments for Rs. 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

Ans. 5 (b) Journal Entries in the books of Dec. Ltd.

(Rs. ' 000)

Bank A/c -----	Dr. 2200	
Profit & loss A/c -----	Dr. 800	
To Investment A/c		3000

(Being Investment sold at a loss of Rs.800000 for the purpose to buy back and loss transferred to Profit & loss A/c)

Equity Share Capital A/c -----	Dr. 500	
Security Premium a/c -----	Dr. 2000	
To Shares Buy Back A/c		2500

(Being 50000 equity shares bought back @ 50/- per share bought back and the premium adjusted in security premium)

Balance Sheet of Dec limited as on 31.3.2008

Liabilities	Amount (Rs. '000)	Assets	Amount (Rs. '000)
<u>Share Capital</u>		Fixed Assets	9300
Authorised capital	3000	Investments	NIL
Issued & subscribed capital :		Current Assets, Loans & Advances (including cash & bank balance)	1200
200000 equity shares of Rs.10 each fully paid up	2000		
2000 10% preference shares of Rs.100 each	200		
<u>Reserve & Surplus</u>			
Capital Reserve	1000		
Revenue Reserve	2500		
Security Premium	200		
Profit & Loss a/c	2700		
Capital redemption reserve	<u>500</u>		
	6900		
Current Liabilities & Provisions	<u>1400</u>		
	10500		<u>10500</u>

Qn. 6. (a) P, Q and R are partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 31st March, 2009 is as follows :

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Liabilities	Rs.	Assets	Rs.
Capital Accounts :		Plant & Machinery	1,08,000
P 1,20,000		Fixtures	24,000
Q 48,000		Stock	60,000

R	<u>24,000</u>	1,92,000	Sundry debtors	48,000
Reserve fund		60,000	Cash	60,000
Creditors		<u>48,000</u>		
		<u>3,00,000</u>		<u>3,00,000</u>

They decided to dissolve the firm. The following are the amounts realised from the assets :

	Rs.
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realisation expenses amounted to Rs. 1,500. A bill for Rs. 4,200 due for sales tax was received during the course of realisation and this was also paid.

You are required to prepare :

- Realisation account
- Partners capital account
- Cash account.

Ans. 6 (a) In the books of firm P, Q & R

Realisation A/c

Particulars	Amount	Particulars	Amount
To Plant & Machinery	108000	By Creditors	48000
" Fixtures	24000	" <u>Cash a/c</u>	
" Stock	60000	Plant and machinery	102000
" Sundry debtors	48000	Fixtures	18000
		Stock	84000
" <u>Cash A/c</u>		Sundry Debtors	<u>44400</u>
Creditors			248400
(48000 x 95%)	45600		
Realisation expenses	1500		
Sales tax liability	4200		
" <u>Capital account</u>			
P	2040		
Q	2040		
R	<u>1020</u>		
	5100		
	<u>296400</u>		<u>296400</u>

Capital A/c

Particulars	P	Q	R	Particulars	P	Q	R
To Cash a/c	146040	74040	37020	By Balance b/d	120000	48000	24000
				" Realisation	2040	2040	1020
				" Reserve Fund	24000	24000	12000
	<u>146040</u>	<u>74040</u>	<u>37020</u>		<u>146040</u>	<u>74040</u>	<u>37020</u>

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	60000	By Realisation A/c	
" Realisation A/c	248400	Creditors	45600
		Realisation Expenses	1500
		Sales tax liability	4200
		" Capital A/c	
		P	146040
		Q	74040
		R	37020
			<u>257100</u>
	<u>308400</u>		<u>308400</u>

Qn 6 (b) Answer the following :

- (i) Axe Limited began construction of a new plant on 1st April, 08 and obtained a special loan of Rs. 4,00,000 to finance the construction of the plant. The rate of interest on loan was 10%. **5**

The expenditure that were made on the project of plant were as follows :

	Rs.
1st April, 08	5,00,000
1st August, 08	12,00,000
1st January, 09	2,00,000

The company's other outstanding non-specific loan was Rs. 23,00,000 at an interest rate of 12%.

The construction of the plant completed on 31st March, 09. You are required to :

- (a) Calculate the amount of interest to be capitalized as per the provisions of AS-16 "Borrowing cost".
(b) Pass a journal entry for capitalizing the cost and the borrowing cost in respect of the plant.

(ii) Compute Basic earning per share from the following information : **5**

Date	Particulars	No. of Shares
1st April, 08	Balance at the beginning of the year	1,500
1st August, 08	Issue of shares for cash	600
31st March, 09	Buy back of shares	500

Net profit for the year ended 31st March, 2009 was Rs. 2,75,000.

Ans 6 (b) (i) (a)

Step (1) Computation of Average accumulated expenses

Rs. 500000 x	$\frac{12}{12}$	(April – March)	=	Rs. 500000
Rs. 1200000 x	$\frac{8}{12}$	(August – March)	=	Rs. 800000
Rs. 200000 x	$\frac{3}{12}$	(January – March)	=	Rs. 50000
Average accumulated expenses =				<u>Rs. 13,50,000</u>

Step (2) Computation of Interest on Average Accumulated Expenses

Average Accumulated Expenses (AAE)	Interest to be Capitalised (Based on AAE)
Rs. 400000 (Specific borrowings) x 10%	Rs. 40000
Rs. 950000 (1350000 – 400000) x 12%	Rs.114000

Total	= Rs. 154000

Amount to be capitalized is Rs.154000 which is not more than actual interest of Rs.316000.

(b) Plant Account ----- Dr. 2054000
 To Cash A/c 2054000

Ans. 6 (b) (ii) The weighted average no. of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the periods a result of a larger or less number of shares outstanding at any time. For the purpose of calculating basic earning per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

Weighted average number of equity shares

$$1500 \times \frac{4}{12} = 500$$

$$\begin{array}{rcl} & 8 & \\ 2100 \times & \frac{\text{---}}{12} & = 1400 \\ & \text{-----} & \\ \text{Total} & & 1900 \end{array}$$

Earning Per Share

$$\text{Base EPS} = \frac{\text{Net profit}}{\text{Weighted average no. of Equity Shares}} = \frac{\text{Rs. 275000}}{1900} = 144.74/-$$