

PAPER – 5 : ADVANCED ACCOUNTING

QUESTIONS

Answer the following (Give adequate working notes in support of your answer):

1. (i) On 31st March, 2010 Maya Bank Ltd. finds that:
- (1) On a term loan of Rs.2 crores, interest for the last three quarters is in arrears beyond the due date.
 - (2) The amount of Rs.10 lakhs of a discounted bill was due on 31st January, 2010 but the same has not been received.
 - (3) On a term loan of Rs.1 crore, interest for the last one month is past due.

Which of the above advances, will be treated as non-performing assets (NPA) as on 31st March, 2010?

- (ii) A company issued 1,000 12% debentures of Rs.500 each at Rs.450, redeemable after five years at 10% discount. However, the company gave an option to the debenture holders to get their debentures converted into equity shares of Rs.50 any time after expiry of one year.

A holder of 120 debentures, informed the company in the beginning of the third year that he wanted to exercise the option of conversion of debentures into equity shares. The company accepted his request and converted his debentures into shares.

Pass the necessary journal entry to record the conversion of debentures into shares.

- (iii) The following particulars relate to a Limited Company which has gone into voluntary liquidation.

Unsecured creditors	Rs. 18,00,000
Partly secured creditors (Assets realized Rs.3,20,000)	Rs. 3,50,000
Cash available for unsecured creditors after all payments including payment to preferential creditors	Rs.13,39,000

Liquidator's remuneration is @ 2% on the amount paid to unsecured creditors. Calculate the percentage of amount paid to the Unsecured Creditors to the total Unsecured Creditors.

- (iv) The following is the Balance sheet of 'A' Ltd. as on 31.3.2010:

Liabilities	Rs.	Assets	Rs.
14,000 Equity Shares of Rs.100 each fully paid up	14,00,000	Sundry Assets	18,00,000
General Reserve	10,000	Discount on issue of Debentures	10,000

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10% Debentures	2,00,000	Preliminary Expenses	30,000
Sundry Creditors	2,00,000	P & L A/c	60,000
Bank Overdraft	50,000		
Bills payable	<u>40,000</u>		<u> </u>
	<u>19,00,000</u>		<u>19,00,000</u>

'R' Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Asset method on the basis of the following:

The market value of 75% of the Sundry Assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities have been taken at book values. There is an unrecorded liability of Rs.25,000.

- (v) Write a short note on 'B' List contributories under Liquidation of a company.
- (vi) Goods purchased on 24.02.2010 for US \$ 10 (Exchange rate – Rs.50/\$)
(Rate of exchange on 31.3.2010 – Rs.51/\$)
Date of actual payment 5.6.2010 (Exchange rate – Rs.52/\$)
Calculate the amount of loss/gain to be recognized in the financial statements for the year ended 31st March, 2010.
- (vii) Sparkli Company Ltd. had 1,00,000 shares of common stock outstanding on January 1. Additional 50,000 shares were issued on July 1, and 25,000 shares were bought back on September 1. Compute the weighted average number of shares outstanding during the year.
- (viii) If goods are transferred from department A to department B at a price so as to include a profit of 50% on cost. Compute the amount of stock reserve on closing stock of Rs. 9,000 in department B.
- (ix) Omega Ltd. issued 20,000, 8% debentures of Rs. 10 each at par, which are redeemable after 5 years at a premium of 20%. What will be the amount of loss on redemption of debentures to be written off each year.
- (x) Net profit for the current year Rs. 1,00,00,000
No. of equity shares outstanding 50,00,000
Basic earnings per share Rs. 2.00
No. of 12% convertible debentures of Rs. 100 each 1,00,000
Each debenture is convertible into 10 equity shares
Interest expense for the current year Rs. 12,00,000
Tax relating to interest expense (30%) Rs. 3,60,000
Compute Diluted Earnings per Share.

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Conceptual Framework for Preparation and Presentation of Financial Statements

- What is the status and scope of the conceptual framework for preparation and presentation of financial statements?

Partnership-Insolvency of a Partner

- A, B, C and D were partners sharing profits and losses in the ratio of 3:3:2:2. Following was their Balance Sheet as on 31.12.2009:

Liabilities			Rs.	Assets			Rs.
Capital Accounts:	A	60,000		Capital Accounts:	C	48,000	
	B	45,000	1,05,000		D	18,000	66,000
Creditors			46,500	Furniture			12,000
A's Loan			30,000	Trademarks			21,000
				Stock			30,000
				Debtors	48,000		
				Less: Provision for doubtful debts	1,500		46,500
				Bank			6,000
			1,81,500				1,81,500

On 31.12.2009, the firm was dissolved and B was appointed to realise the assets and to pay off the liabilities. He was entitled to receive 5% commission on the amount finally paid to other partners as capital. He agreed to bear the expenses of realisation. The assets were realised as follows: Debtors Rs.33,000; Stock Rs.24,000; Furniture Rs.3,000; Trademarks Rs.12,000.

Creditors were paid off in full, in addition, a contingent liability for Bills Receivable discounted materialised to the extent of Rs.7,500. Also, there was a joint life policy for Rs.90,000. This was surrendered for Rs.9,000. Expenses of realisation amounted to Rs.1,500. C was insolvent but Rs.11,100 was recovered from his estate.

Prepare Realisation Account, Bank Account and Capital Accounts of the partners.

Partnership - Piecemeal Distribution

- Daksh Associates is a reputed firm. On account of certain misunderstanding between the partners, it was decided to dissolve the firm as on 31st December, 2009. Their Balance Sheet as on 31st December, 2009 was follows:

Liabilities		Rs.	Assets		Rs.
Capitals:			Land and Buildings		7,00,000
Daksh	3,00,000		Other Fixed Assets		3,00,000
Yash	2,00,000		Stock in Trade		2,00,000

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Siddhart (Minor)	<u>1,00,000</u>		Debtors	4,00,000
		6,00,000	Bills Receivable	1,50,000
Trade Loans		3,00,000	Goodwill	30,000
Bank Overdraft		3,00,000	Cash	20,000
Other Loans		2,00,000		
Creditors		2,00,000		
Siddhart's Loan		<u>2,00,000</u>		
		<u>18,00,000</u>		<u>18,00,000</u>

It was decided that Mr. Daksh shall be in-charge of Realisation. He shall set apart Rs.10,000 towards expenses. He shall be paid a remuneration of 5 percent on the amounts distributed to the partners towards their contribution other than loans. Assets realized are as under:

		Rs.
1-1-2010	Debtors	3,50,000
15-1-2010	Fixed Assets	4,00,000
1-2-2010	Debtors	50,000
15-2-2010	Bills Receivable	1,40,000
1-3-2010	Fixed Assets	50,000
15-3-2010	Land and Buildings	8,00,000

Prepare a statement showing how the money received on various dates will be distributed assuming:

- The actual expenses of realization amounted to Rs. 20,005.
- The firm is solvent.
- The profit sharing ratio was as under:

	Profit	Loss
Daksh	2	1
Yash	2	1
Siddhart	<u>1</u>	<u>Nil</u>
	<u>5</u>	<u>2</u>

- The final dissolution is made on 15th March, 2010

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Partnership-Sale to a Company

5. A and B were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.2009 was:

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	60,000	Stock	60,000
Bank overdraft	35,000	Machinery	1,50,000
Capital A/cs:		Debtors	70,000
A 1,40,000		Joint Life Policy	9,000
B <u>1,30,000</u>	2,70,000	Leasehold Premises	34,000
		Profit & Loss A/c	26,000
		Drawings Accounts:	
		A 10,000	
		B <u>6,000</u>	16,000
	3,65,000		3,65,000

The business was carried on till 30.6.2010. The partners withdrew in equal amounts half the amount of profits made during the period of six months after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by Rs.10,000 and bank overdraft by Rs.15,000.

On 30.6.2010, stock was valued at Rs.75,000 and Debtors at Rs.60,000; the Joint Life Policy had been surrendered for Rs.9,000 before 30.6.2010 and other items remained the same as at 31.12.2009.

On 30.6.2010, the firm sold the business to a Limited Company. The value of goodwill was fixed at Rs.1,00,000 and the rest of the assets were valued on the basis of the Balance Sheet as at 30.6.2010. The company paid the purchase consideration in Equity Shares of Rs.10 each.

You are required to prepare: (a) Balance Sheet of the firm as at 30.6.2010; (b) The Realisation Account; (c) Partners' Capital Accounts showing the final settlement between them.

Employee Stock Option Plan

6. ABC Ltd. grants 1,000 employees stock options on 1.4.2006 at Rs.40, when the market price is Rs.160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapsed on 1.5.2008. 600 options are exercised on 30.6.2009. 100 vested options lapsed at the end of the exercise period.

Pass Journal Entries giving suitable narrations.

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Buy Back of Shares

7. Handful Ltd. furnished the following balance sheet as at 31.3.2010: (Rs. in crores)

Liabilities	Amount	Asset	Amount
Authorised Capital	125	Fixed Assets	150
Issued and Subscribed Capital:		Investments	120
13% Redeemable Preference Shares of Rs. 100 each, fully paid	75	Current Assets, Loans and Advances	295
Equity Shares of Rs. 10 each, fully paid	50		
Reserves and Surplus:			
Capital Reserve	50		
Revenue Reserve	250		
Current Liabilities and Provisions	140		
	565		565

The company purchased its own 100 lakh equity shares of Rs. 10 each at Rs. 25 per share on 1.4.2010 out of free reserves. The company also redeemed preference shares on the same date. The payments for the above were made from bank account, which forms part of current assets.

You are required to pass necessary journal entries to record the above and prepare the balance sheet as it would appear after the aforesaid transactions.

Underwriting of Shares

8. Outset Ltd. invited applications from public for 1,00,000 equity shares of Rs.10 each at a premium of Rs.5 per share. The entire issue was underwritten by the underwriters P, Q, R and S to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000, 2,000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law.

The company received applications for 70,000 shares (excluding firm underwriting) from public, out of which applications for 19,000, 10,000, 21,000 and 8,000 shares were marked in favour of P, Q, R and S respectively.

Calculate the liability of each underwriters. Also ascertain the underwriting commission payable to different underwriters.

Redemption of Debentures

9. On 1st January, 2004, X Limited issued fifteen years debentures of Rs.100 each bearing interest at 10% p.a. One of the conditions of issue was that the company could redeem the debentures by giving six months' notice at any time after 5 years, at a premium of 4% either by payment in cash or by allotment of preference shares and/or other debentures at the option of the debenture holders.

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On 1st April, 2009 the company gave notice to the debenture holders of its intention to redeem the debentures on 1st October, 2009 either by payment in cash or by allotment of 11% preference shares of Rs.100 each at Rs.130 per share or 11% Second Debentures of Rs.100 each at Rs.96 per debenture.

Holders of 4,000 debentures accepted the offer of the preference shares; holders of 4,800 debentures accepted the offer of the 11% second debentures and the rest demanded cash on 1st October, 2009.

Give the journal entries to give effect to the above as on 1st October, 2009.

Amalgamation of Companies

10. Given below are the balance sheets of Huge Ltd and Big Ltd. as on 31.12.2009. Big Ltd. was merged with Huge Ltd. with effect from 1.1.2010.

Balance Sheets as on 31.12.2009

Liabilities	Huge Ltd.	Big Ltd.	Assets	Huge Ltd.	Big Ltd.
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Share capital :			Sundry fixed assets	9,50,000	4,00,000
Equity shares of Rs. 10 each	7,00,000	2,50,000	Investments (Non-trade)	2,00,000	50,000
General reserve	3,50,000	1,20,000	Stock	1,20,000	50,000
Profit and loss A/c	2,10,000	65,000	Debtors	75,000	80,000
Export profit reserve	70,000	40,000	Advance tax	80,000	20,000
12% Debentures	1,00,000	1,00,000	Cash and bank	2,75,000	1,30,000
Sundry creditors	40,000	45,000	Preliminary expenses	10,000	
Provision for taxation	1,00,000	60,000			
Proposed Dividend	1,40,000	50,000			
	17,10,000	7,30,000		17,10,000	7,30,000

Huge Ltd. would issue 12% debentures to discharge the claims of the debenture holders of Big Ltd. at par. Non-trade investments of Huge Ltd. fetched @ 25% while those of Big Ltd. fetched @ 18%. Profit of Huge Ltd. and Big Ltd. during 2007, 2008 and 2009 were as follows:

Year	Huge Ltd. Rs.	Big Ltd. Rs.
2007	5,00,000	1,50,000
2008	6,50,000	2,10,000
2009	5,75,000	1,80,000

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Goodwill may be calculated on the basis of capitalization method taking 20% as the normal rate of return. Purchase consideration is discharged by Huge Ltd. on the basis of intrinsic value per share. Both companies decided to cancel the proposed dividend.

Pass Journal Entries and prepare the balance sheet of Huge Ltd. after the merger.

Internal Reconstruction

11. Given below is the balance sheet of Rebuilt Ltd. as on 31.3.2010:

Liabilities	Amount Rs.	Assets	Amount Rs.
Authorised and issued capital:		Building at cost less depreciation	4,00,000
12,000, 7% Preference shares of Rs. 50 each	6,00,000	Plant at cost less depreciation	2,68,000
(Note: Preference dividend is in arrear for five years)		Trademarks and goodwill at cost	3,18,000
15,000 Equity shares of Rs. 50 each	<u>7,50,000</u>	Stock	4,00,000
	13,50,000	Debtors	3,28,000
Loan	5,73,000	Preliminary expenses	11,000
Sundry creditors	2,07,000	Profit and loss A/c	4,40,000
Other liabilities	<u>35,000</u>		
	<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 the classes of shareholders. A summary of the scheme is as follows:

- 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.
- 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.
- Lenders to the company for Rs. 1,50,000 have agreed to convert their loan into shares and for this purpose they will be allotted 12,000 new preference shares of Rs. 10 each and 12,000 new equity shares of Rs. 2.50 each.
- 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.
- Of the cash received by issue of new shares, Rs. 2,00,000 is to be used to reduce the loan due by the company.

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- (f) The equity share capital cancelled is to be applied:
- i. to write off the preliminary expenses;
 - ii. to write off the debit balance in the profit and loss account; and
 - iii. 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 the company after reconstruction. The nominal capital as reduced is to be increased to Rs.6,50,000 for preference share capital and Rs.7,50,000 for equity share capital.

Liquidator's Statement of Account

12. Given below is the Balance Sheet of Sum up Ltd. as on 31st March, 2010:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets:	
1,000, 6% Preference Shares of Rs. 100 each fully paid up	1,00,000	Machinery	1,90,000
2,000, Equity Shares of Rs. 100 each fully paid up	2,00,000	Furniture	10,000
2,000 Equity Shares of Rs. 100 each, Rs. 75 paid up	1,50,000	Current Assets:	
Bank Loan (secured on stock)	1,00,000	Stock	1,20,000
Current Liabilities and Provision:		Debtors	2,40,000
Creditors	3,50,000	Cash at Bank	50,000
Income-tax Payable	10,000	Miscellaneous Expenditure:	
		Profit and Loss Account	3,00,000
	9,10,000		9,10,000

The company went into liquidation on 1st April, 2010. The assets were realised as follows:

	Rs.
Machinery	1,66,000
Furniture	8,000
Stock	1,10,000
Debtors	2,30,000
Liquidation expenses	4,000

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The liquidators are entitled to a commission at 2% on amount paid to unsecured creditors excluding payment made to preferential creditors. Calls on partly paid shares were made but the amount due on 200 shares were found to be irrecoverable.

Prepare Liquidator's Statement of Account.

Financial Statements of Banking Companies

13. The following is an extract from the Trial Balance of a Bank as at 31st March, 2010:

	Rs.	Rs.
Bills discounted	51,50,000	
Rebate on bills discounted not yet due, April 1, 2009		30,501
Discount received		1,45,500

An analysis of the bills discounted as shown above shows the following:

Date of bills	Amount (Rs.)	Term months	Discounting percentage p.a.
January 13	7,50,000	4	12
February 17	6,00,000	3	10
March 6	4,00,000	4	11
March 16	2,00,000	2	10

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate Journal Entries for the same. How the relevant items will appear in the Bank's Balance Sheet?

14. From the following information prepare Profit and Loss Account of Sanchay Bank for the year ended on 31st March, 2010.

	Rs. (000)		Rs.(000)
Interest on Loans	2,590	Interest on Overdrafts	1,540
Interest on Fixed Deposits	3,170	Directors' Fees, Allowances and Expenses	30
Rebate on Bills Discounted	490	Auditors' Fees and Expenses	12
Commission	82	Interest on Savings Bank Deposits	680
Payment to Employees	540	Postage, Telegrams & Telephones	14
Discount on Bills Discounted (Gross)	1,550	Printing and Stationery	29
Interest on Cash Credits	2,230	Sundry Charges	17
Rent, Taxes and Lighting	180		

Additional information:

- (i) Provide for Contingencies Rs.2,00,000.

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- (ii) Transfer Rs.15,57,000 to Reserves and
- (iii) Transfer Rs.2,00,000 to Central Government.

Financial Statements of Insurance Companies

15. The following figures have been extracted from the books of New India Insurance Company Ltd. in respect of their Marine Insurance Business for 2009-2010:

(Rs. in lakhs)			
Direct Business Premium Income received	50.00	Commission paid on Direct Business	5.00
Reserve for unexpired risks as on 1.4.2009	60.00	Expenses of Management	5.00
Claims outstanding as on 1.4.2009 (net)	20.00	Income tax deducted at source	3.00
Bad Debts	10.00	Profit and Loss Account (Cr.) balance as on 1.4.2009	10.00
Income from investment and dividends (gross)	10.00	Other expenses	1.25
Rent received from properties	5.00	Reinsurance premium receipts	5.00
Investment in government securities as on 1.4.2009	100.00	Outstanding claims as on 31.3.2010 (net)	30.00
Investment in shares as on 1.4.2009	20.00	Direct claims paid (gross)	25.00
		Reinsurance claims paid	4.00

Prepare a Revenue Account and Profit and Loss Account for the year after taking into account the following further information:

- (a) All direct risks are reinsured for 20% of the risk.
- (b) Claim a Commission of 25% on reinsurance ceded.
- (c) Provide 25% Commission on reinsurance accepted.
- (d) Market value of investments as on 31st March, 2010 is as follows:
 - (i) Government Securities Rs. 105 lakhs.
 - (ii) Shares Rs. 18 lakhs.
 Adjust separately for each of these two categories of investments.
- (e) Provide 65% for Income tax.

Financial Statements of Electricity Supply Companies

16. An Electric Supply Company rebuilds its Mains at the cost of Rs.19,90,000. This excludes value of Rs.13,800 material of old Main used for new one. The original mains were constructed at a cost of Rs.9,90,000. the ratio of material and labour then was 7:3.

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The increase in material prices is $12\frac{1}{2}\%$ and wage rates 15%. Materials worth Rs.25,200 from old works was sold.

Show Journal entries and prepare Mains Account and Replacement Account under Double Accounts System for the above and determine the net cost of replacement.

17. From the following details of Prakash electricity supply company, maintaining accounts under Double Account System, calculate the following:

(a) clear profit (b) capital base (c) reasonable return (d) disposal of surplus and (e) statement of disposal.

	Rs.
Sale of energy	12,40,000
Meter rents	90,000
Transfer fees	1,000
Costs of generation	6,05,000
Distribution and selling expenses	65,000
Rent, Rates and Taxes	18,000
Audit fees	5,000
Intangibles written off	3,000
Management expenses	90,000
Depreciation	60,000
Interest on loan from Electricity Board	9,000
Contingency Reserve Investment Income	5,000
Interest on Security Deposits	1,000
Contribution to Provident Fund	32,000
Interest on Bank Deposits	600

Original Cost of Fixed Assets is Rs.27,00,000; Contributions by consumers for acquisition of such Fixed Assets Rs.2,00,000; cost of intangibles Rs.50,000; Contingency Reserve Investment Rs.50,000; Stores (monthly average) Rs.50,000 and Cash and Bank balances (monthly average) Rs.40,000.

Depreciation upto the beginning of the year Rs.5,00,000. Intangibles written off upto the beginning of the year Rs.40,000. Security deposits of customers held in cash Rs.20,000, Tariffs and Dividend Control Reserve Rs.80,000. Development Reserve Rs.1,20,000.

Amount carried forward for distribution to consumers Rs.15,000. Loan from State Electricity Board Rs.90,000. No new Plant and Machinery was added in the year. Transfer in the year to Contingency Reserve was Rs.8,000. Reserve Bank rate is to be adopted at 8%.

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Branch Accounts

18. M/s Surplus commenced business on 1.04.2009 with the head office at Ahmedabad and branch at Surat. All goods were purchased by head office and normally packed immediately, but on 31.3.2010, goods costing Rs. 5,000 remained unpacked. Only the packed goods were sent to the branch which was charged at selling price less 10%. The following information is furnished to you as on 31st March 2010, from the Head Office and Branch Office books:

Particulars	H.O. (Rs.)	Branch (Rs.)
Capital Account	40,000	
Drawings by Proprietor	10,000	
Purchases	4,00,000	
Packing materials bought	6,000	
Sales	3,20,000	1,00,000
Despatch of goods to Branch	1,13,400	
Selling expenses	16,000	800
Clerk's salary, wages, etc.	20,000	3,000
Sundry Debtors	28,000	4,200
Sundry Creditors	26,600	5,000
Head Office Current A/c		12,000
Branch Office Current A/c	19,000	
Bank Balances	2,000	
Goods received from Head Office		1,08,000

Information

- (a) Sales by head office were on uniform gross profit, after charging packing materials, of 20% at the fixed selling price.
- (b) Sales at Branch were at fixed selling price.
- (c) Goods invoiced and despatched by head office to branch in March 2010 for Rs. 5,400 were received in the Branch only on 10th April.
- (d) Stock of packing materials at head office as on 31st March 2010 was valued at Rs. 1,000.
- (e) Remittance of Rs. 1,600 from the branch to the Head Office was in transit on 31.3.2010.
- (f) Rs. 2,000 worth of stock at selling price was damaged at the branch. For valuing stock, this was reduced by Rs. 1,090 below the invoice cost to the branch. It was decided that the Head office and branch would share equally the loss occasioned by

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this and also the deficit in stock, ascertained on actual stock taking at the Branch of goods at selling price of Rs. 500.

Prepare Trading and Profit and Loss Account of Surat and Ahmedabad Office and also a Balance Sheet as at 31.3.2010 of the business.

Departmental Accounts

19. M/s Maalamaal Limited has three departments A, B and C. From the particulars given below compute:

- (a) the values of stock as on 31st December, 2009 and
(b) the departmental trading results.

(i)	A Rs.	B Rs.	C Rs.
Stock as on 1 st January, 2009	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual sales	1,72,500	1,59,400	74,600
G.P. on normal selling prices	20%	25%	33 $\frac{1}{3}$ %

- (ii) During the year certain items were sold at discount and these discounts were reflected in the values of sales shown above. The items sold at discount were:

	Deptt A	Deptt. B	Deptt. C
	Rs.	Rs.	Rs.
Sales at normal prices	10,000	3,000	1,000
Sales at actual prices	7,500	2,400	600

Liquidator's B List Contributories

20. In a winding up of a company, certain creditors remained unpaid. The following persons had transferred their holding sometime before winding up :

Name	Date of Transfer 2009	No. of Shares transferred	Amount due to creditors on the date of transfer Rs.
P	January 1	1,000	7,500
Q	February 15	400	12,500
S	March 15	700	18,000
T	March 31	900	21,000
U	April 5	1,000	30,000

The shares were of Rs. 100 each, Rs. 80 being called up and paid up on the date of transfers.

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A member, R, who held 200 shares died on 28th February, 2009 when the amount due to creditors was Rs. 15,000. His shares were transmitted to his son X.

Z was the transferee of shares held by T. Z paid Rs. 20 per share as calls in advance immediately on becoming a member.

The liquidation of the company commenced on 1st February, 2010 when the liquidator made a call on the present and the past contributories to pay the amount.

You are asked to quantify the maximum liability of the transferors of shares mentioned in the above table, when the transferees :

- (i) pay the amount due as “present” member contributories;
- (ii) do not pay the amount due as “present” member contributories.

Also quantify the liability of X to whom shares were transmitted on the demise of his father R.

Accounting Standards

21. (a) Whether the borrowing cost incurred on loan borrowed for construction of building on land, is capitalized when the land has been acquired but no construction has been started yet?
- (b) Alpha Ltd. has not disclosed basic EPS and diluted EPS on the face of its Profit and Loss Account as it has incurred a loss during the year. State whether, the company is right in its contentions or not?
- (c) Nischit Ltd. has acquired a generator on 1.4.2009 for Rs. 50 lakhs. On 2.4.2009, it applied to IREDA (Indian Renewable Energy Development Authority) for a subsidy of 10% of the cost as the generator was using solar energy. The subsidy was granted in June, 2009 after the accounts for 2008-09 were finalised. The company has not accounted for the subsidy for the year ended 31.3.2009. Give your views on the following:
- a. Is this a prior period item?
 - b. How should the subsidy be accounted in the accounting year 2009-10?
- (d) A Limited Company closed its books in the accounting year ended on 30.6.2010 and the accounts for that period were considered and approved by the board of directors on 20th August, 2010. The company was engaged in laying pipe line for an oil company deep beneath the earth. While doing the boring work on 1.9.2010 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of Rs.80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.2010.
22. (a) A Limited Company finds that the stock sheets as on 31.3.2009 had included twice an item, the cost of which was Rs. 20,000.
- You are asked to suggest, how the error would be dealt with in the accounts of the year ended 31.3.2010.
- (b) Assets and liabilities and income and expenditure items in respect of foreign branches are translated into Indian rupees at the prevailing rate of exchange at the

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end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue. Give your comments on the above matter for the financial year ending on 31.3.2010.

- (c) A Pharma Company spent Rs. 33 lakhs during the accounting year ended 31st March, 2010 on a research project to develop a drug to treat "AIDS". Experts are of the view that it may take four years to establish whether the drug will be effective or not and even if found effective it may take two to three more years to produce the medicine, which can be marketed. The company wants to treat the expenditure as deferred revenue expenditure.
 - (d) Mini Ltd. took a factory premises on lease on 1.4.07 for Rs.2,00,000 per month. The lease is operating lease. During March 2008, Mini Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2010. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2010 should be provided in the accounts for the year ending 31.3.2008. Mini Ltd. seeks your advice.
23. (a) State, how you will deal with the following matters in the accounts of U Ltd. for the year ended 31st March, 2010 with reference to Accounting Standards:
- (i) The company finds that the stock sheets of 31.3.2009 did not include two pages containing details of inventory worth Rs. 14.5 lakhs.
 - (ii) The company had spent Rs. 45 lakhs for publicity and research expenses on one of its new consumer product, which was marketed in the accounting year 2009-2010, but proved to be a failure.
- (b) While preparing its final accounts for the year ended 31st March, 2010 a company made a provision for bad debts @ 5% of its total debtors. In the last week of February, 2010 a debtor for Rs. 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2010 the debtor became bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2010?
- (c) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2010, when the exchange rate was Rs.43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2010 when the exchange rate was Rs.47 per US Dollar. However, on 31st March, 2010, the rate of exchange was Rs.48 per US Dollar. The company passed an entry on 31st March, 2010 adjusting the cost of raw materials consumed for the difference between Rs.47 and Rs.43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

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24. (a) A fixed asset was purchased for Rs. 10 lakhs. Government grant received towards it amounted Rs. 4 lakhs. Show the accounting treatment if it is a depreciable asset with Rs. 2 lakhs residual value and 4 years useful life. The company adopts Straight Line method of providing depreciation.
- (b) Asset 'A' is constructed from 1.2.2008 to 30.3.2009 from borrowing of Rs. 10 lakhs taken from SBI on 1.7.2008 at 12% per annum interest. The surplus funds were invested till 31.3.2009 which earned interest Rs. 15,000. Show how much borrowing cost will be capitalized during the year 2008-2009 and 2009-2010. Loan is being repaid in 5 equal annual instalment.
- (c) Net profit after tax including extraordinary profit/losses for the year ended 31st December, 2009 = Rs.2,00,000
10% cumulative preference shares of Rs. 5,00,000.
Number of equity shares = 5,000 shares, Equity shares of Rs. 100 each = Rs.5,00,000.
Equity dividend declared @ 18%. Corporate dividend tax 15%.
Calculate EPS assuming that out of 5,000 equity shares, 2,000 equity shares were issued on 1.7.2009.
25. (a) On January 2, 2009, Devansh Co. Ltd. bought a trademark from Induga Co. for Rs.10,00,000. Devansh Co. Ltd. hired an independent consultant, who estimated the trademark's remaining life to be 20 years. Its unamortized cost on Induga Co.'s accounting records was Rs.5,00,000. Devansh Co. Ltd. decided to amortize the trademark over the maximum period allowed. In Devansh Co. Ltd.'s December 31, 2009 balance sheet, what amount should be reported, as accumulated amortization?
- (b) An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair value of the equipment are Rs. 3,00,000. The amount will be paid in 3 instalments and at the termination of lease, lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is Rs. 40,000. The IRR (internal rate of return) of the investment is 10%. The present value of annuity factor of Re. 1 due at the end of 3rd year at 10% IRR is 2.4868. The present value of Re. 1 due at the end of 3rd year at 10% rate of interest is 0.7513. State with reason whether the lease constitutes finance lease.

SUGGESTED ANSWERS/HINTS

1. (i) (1) A term loan is treated as NPA if interest on it remains past due for a period of more than 90 days. In the present case, interest is in arrears for the last 3 quarters beyond the due date. Hence the term loan is NPA as on 31st March, 2010.
- (2) To be treated as NPA the discounted bill must remain overdue and unpaid for a period of more than 90 days. But in the present case, bill has remained

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overdue for less than 90 days. Hence the discounted bill is not to be treated as NPA as on 31st March, 2010.

- (3) The term loan of Rs.1 crore is not to be treated as NPA as on 31st March, 2010 because interest is past due for less than 90 days.

(ii)

		Rs.	Rs.
12% Debentures A/c	Dr.	60,000	
To Discount on redemption of debentures A/c			6,000
To Equity Share Capital A/c			54,000
(Being 1,080 equity shares of Rs.50 each issued to a holder of 120 debentures)			

- (iii) Liquidator's remuneration on unsecured creditors = $\frac{2}{102} \times 13,39,000 = \text{Rs.}26,255$

Unsecured portion in partly secured creditors = Rs.3,50,000 - Rs.3,20,000

= Rs.30,000

Total unsecured creditors = 18,00,000 + 30,000 = Rs.18,30,000

Amount paid to unsecured creditors = 13,39,000 – 26,255 = Rs.13,12,745.

Percentage of amount paid to unsecured creditors to total unsecured creditors

$$= \frac{13,12,745}{18,30,000} \times 100 = 71.73\%$$

- (iv) **Calculation of Purchase consideration under Net Asset Method:**

Sundry Assets		Rs.
18,00,000 x $\frac{75}{100} \times \frac{112}{100} =$	15,12,000	
18,00,000 x $\frac{25}{100} \times \frac{92}{100} =$	<u>4,14,000</u>	19,26,000
Less: Liabilities:		
10% Debentures	2,00,000	
Sundry Creditors	2,00,000	
Bank Overdraft	50,000	
Bills Payable	40,000	
Unrecorded Liability	<u>25,000</u>	<u>5,15,000</u>
Purchase consideration		<u>14,11,000</u>

- (v) 'B' list contributories are those shareholders who transferred partly paid shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up. Such shareholders may be called upon to pay an amount (not

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exceeding the amount not called up when the shares were transferred) to pay off such creditors as existed on the date of transfer of shares and can not be paid out of the funds otherwise available with the liquidator, provided also that the existing shareholders have failed to pay the amount due on the shares.

- (vi) The loss of Rs. 10 (i.e. US Dollars 10 x Re.1 (51-50))
- (vii) $1,00,000 \times 12/12 + 50,000 \times 6/12 - 25,000 \times 4/12 = 1,16,667$ shares.
- (viii) Stock reserve = $\text{Rs. } 9,000 \times 50/150 = \text{Rs. } 3,000$
- (ix) Loss on redemption of debentures at premium = $20,000 \times \text{Rs. } 2$.
Amount to be written off every year = $\text{Rs. } 40,000 / 5 = \text{Rs. } 8,000$
- (x) Adjusted net profit for the current year $(1,00,00,000 + 12,00,000 - 3,60,000)$
 $= \text{Rs. } 1,08,40,000$.

No. of equity shares resulting from conversion of debentures = 10,00,000 shares.

No. of equity shares used to compute diluted EPS:

$$(50,00,000 + 10,00,000) = 60,00,000 \text{ Shares}$$

$$\text{Diluted earnings per share} = (1,08,40,000 / 60,00,000) = \text{Rs. } 1.81$$

2. The framework applies to general-purpose financial statements usually prepared annually for external users, by all commercial, industrial and business enterprises, whether in public or private sector. The special purpose financial reports, for example, prospectuses and computations prepared for tax purposes are outside the scope of the framework. Nevertheless, the framework may be applied in preparation of such reports, to the extent not inconsistent with their requirements.

Nothing in the framework overrides any specific Accounting Standard. In case of conflict between an accounting standard and the framework, the requirements of the Accounting Standard will prevail over those of the framework.

3. In the books of the Firm

Realisation Account

Particulars	Rs.	Particulars	Rs.
To Furniture A/c	12,000	By Provision for doubtful debts A/c	1,500
To Trademarks A/c	21,000	By Creditors A/c	46,500
To Stock A/c	30,000	By Bank A/c (W.N. 1)	81,000
To Debtors A/c	48,000	By Partners' Capital A/c	
To Bank A/c (W.N. 2)	54,000	A = Rs.11,153	
		B = Rs.11,153	
		C = Rs. 7,435	
		D = <u>Rs. 7,435</u>	37,176
To B's Capital A/c (W.N.3)	1,176		
	1,66,176		1,66,176

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Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	6,000	By Realisation A/c (W.N.2)	54,000
To Realisation A/c (W.N.1)	81,000	By A's Loan A/c	30,000
To Partners' Capital A/cs A = 11,153 B = 11,153 D = <u>7,435</u>	29,741	By Partners' Capital A/cs: (final payment)	
To C	11,100	A	34,665
To D	18,000	B	27,176
	1,45,841		1,45,841

Partners' Capital Accounts

Particulars	A Rs.	B Rs.	C Rs.	D Rs.	Particulars	A Rs.	B Rs.	C Rs.	D Rs.
To Balance b/d	--	--	48,000	18,000	By Balance b/d	60,000	45,000	---	---
To Realisation A/c (Loss)	11,153	11,153	7,435	7,435	By Bank	11,153	11,153		7,435
To C's Capital A/c (W.N.4)	25,335	19,000	---	---	By Bank A/c (final dividend)	--	--	11,100	---
To Bank A/c (Final settlement)	34,665	27,176	---	---	By Realisation A/c (Comm.)	---	1,176	---	---
					By Bank A/c	---	---	---	18,000
					By A's Capital A/c (W.N.4)	---	---	25,335	---
					By B's Capital A/c (W.N.4)	---	---	19,000	---
	71,153	57,329	55,435	25,435		71,153	57,329	55,435	25,435

Working Notes:

- Total assets realised = Rs.(33,000+3,000+24,000+12,000+9,000) = Rs.81,000
- Total payment = Rs.(46,500 + 7,500) = Rs.54,000. A's loan has been paid directly.
- Calculation of commission payable to B:
Let B's commission = x
Realisation loss before taking into account B's commission is Rs.36,000.

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Therefore, realisation loss after B's commission = Rs.36,000+x.

Share of A = $\frac{3}{10} (36,000 + x) = 10,800 + \frac{3x}{10}$

Share of C = $\frac{2}{10} (36,000+x) = 7,200 + \frac{2x}{10}$

Share of D = $\frac{2}{10} (36,000+x) = 7,200 + \frac{2x}{10}$

C's deficiency = Rs.48,000 + (Rs.7,200 × $\frac{2x}{10}$)-Rs.11,100 = Rs.44,000+x/5

Share of A in C's deficiency = $\frac{4}{7}$ of $(44,100 + \frac{x}{5}) = \text{Rs.}25,200 + \frac{4x}{35}$

A will finally get

$$= \text{Rs.}60,000 - (\text{Rs.}10,800 + \frac{3x}{10} + 25,200 + \frac{4x}{35})$$

$$= \text{Rs.}60,000 - \text{Rs.}10,800 - \frac{3x}{10} - 25,200 - \frac{4x}{35}$$

$$= \text{Rs.}24,000 - (\frac{21x}{70} + \frac{8x}{70})$$

$$= \text{Rs.}24,000 - \frac{29x}{70}$$

$$x = 5\% [24,000 - \frac{29x}{70}]$$

$$\text{or, } \frac{5}{100} [24,000 - \frac{29x}{70}]$$

$$\text{or, } x = 1,200 - .02071x$$

$$\text{or, } x + .02071x = 1,200$$

$$\text{or, } x = 1,200 / 1.02071$$

$$\text{or, } x = 1175.64 = 1,176 \text{ (approx.)}$$

- (4) C's deficiency of Rs. 44,335 is to be shared by A and B in their capital ratio of 60,000: 45,000 or 4:3. D will not bear any deficiency loss because his capital account has debit balance.

4. It is assumed that trade loans, bank overdraft, other loans and creditors have equal priority at the time of payment. Therefore, they all have been paid in the ratio of their dues outstanding.

Particulars		Trade Loans Rs.	Bank Overdraft Rs.	Other Loans Rs.	Creditors Rs.	Siddhart's Loan Rs.	Daksh's Capital Rs.	Yash's Capital Rs.	Siddhart's Capital Rs.
Amount due		3,00,000	3,00,000	2,00,000	2,00,000	2,00,000	3,00,000	2,00,000	1,00,000
Cash in hand	20,000								
Less: Amount kept for realization expenses	<u>10,000</u>								
	10,000								
Less: Distributed among outsiders (3:3:2:2)	<u>10,000</u>	<u>3,000</u>	<u>3,000</u>	<u>2,000</u>	<u>2,000</u>	—	—	—	—

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Balance Due	<u>Nil</u>	2,97,000	2,97,000	1,98,000	1,98,000	2,00,000	3,00,000	2,00,000	1,00,000
Debtors realised on 1-1-2010	3,50,000								
Less: Distributed among outsiders (3:3:2:2)	<u>3,50,000</u>	<u>1,05,000</u>	<u>1,05,000</u>	<u>70,000</u>	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance Due	<u>Nil</u>	1,92,000	1,92,000	1,28,000	1,28,000	2,00,000	3,00,000	2,00,000	1,00,000
Fixed Assets realized on 15-1-2010	<u>4,00,000</u>								
Less: Distributed among outsiders (3:3:2:2)	<u>4,00,000</u>	<u>1,20,000</u>	<u>1,20,000</u>	<u>80,000</u>	<u>80,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance Due	Nil	72,000	72,000	48,000	48,000	2,00,000	3,00,000	2,00,000	1,00,000
Debtors realized on 1-2-2010	50,000								
Less: Distributed among outsiders (3:3:2:2)	<u>50,000</u>	<u>15,000</u>	<u>15,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance Due	Nil	57,000	57,000	38,000	38,000	2,00,000	3,00,000	2,00,000	1,00,000
Bills Receivable realised on 15-2-2010	1,40,000								
Less: Distributed among outsiders (3:3:2:2)	<u>1,40,000</u>	<u>42,000</u>	<u>42,000</u>	<u>28,000</u>	<u>28,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance Due	Nil	15,000	15,000	10,000	10,000	2,00,000	3,00,000	2,00,000	1,00,000
Fixed Assets realized on 1-3-2010	50,000								
Less: Distributed among outsiders (3:3:2:2)	<u>50,000</u>	<u>15,000</u>	<u>15,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance Due	Nil	-	-	-	-	2,00,000	3,00,000	2,00,000	1,00,000
Land and Building realised on 15-3-2010	8,00,000								
Less: Additional payment of realization expenses (20,005 – 10,000)	<u>10,005</u>								
	7,89,995								
Less: Payment of Siddhart's Loan	<u>2,00,000</u>					<u>2,00,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amount available for partners' Capital	5,89,995					-	3,00,000	2,00,000	1,00,000
Less: Daksh's Commission									

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$\frac{5}{105} \text{ (i.e. } 5,89,995 \times \frac{5}{105} \text{)}$	<u>28,095</u>								
	5,61,900								
Less: Siddhart's Capital is paid first because he will not share any loss on account of being minor partner	<u>1,00,000</u>							<u>1,00,000</u>	
	4,61,900					3,00,000	2,00,000		-
Less: Paid to Daksh to make his capital equal to that of Yash	<u>1,00,000</u>					<u>1,00,000</u>			
	3,61,900					2,00,000	2,00,000		-
Less: Distributed equally between Daksh and Yash	<u>3,61,900</u>					<u>1,80,950</u>	<u>1,80,950</u>		
Balance Due						19,050	19,050		Nil*

*Siddhart will get 1/5 share (i.e., share of profit) of what remains after paying Rs. 19,050 to each Daksh and Yash out of the proceeds of stock-in trade. If stock does not realize any amount, then amount unpaid to Daksh and Yash will become loss on realization. Siddhart has been paid first because he is not to share any loss on realization.

5. (a) Balance Sheet as on 30.6.2010

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Accounts:			Machinery	1,50,000	
A's balance as on 1.1.2010	1,17,000		Less: Depreciation @ 10% p.a.	<u>7,500</u>	1,42,500
Add: Profit for 6 months	<u>11,800</u>		Leasehold premises	34,000	
	1,28,800		Less: Written-off @ 5%	<u>1,700</u>	32,300
Less: Drawings for 6 months	<u>5,900</u>	1,22,900	Stock		75,000
B's balance as on 1.1.2010	1,11,000		Sundry Debtors		60,000
Add: Profit for 6 months	<u>11,800</u>				
	1,22,800				
Less: Drawings for 6 months	<u>5,900</u>	1,16,900			
Sundry Creditors		50,000			
Bank overdraft		20,000			
		3,09,800			3,09,800

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(b) Realisation Account

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	1,42,500	By Sundry Creditors A/c	50,000
To Leasehold Premises A/c	32,300	By Bank Overdraft A/c	20,000
To Stock A/c	75,000	By Limited Company A/c (W.N.2)	3,39,800
To Sundry Debtors A/c	60,000		
To A's Capital A/c	50,000		
To B's Capital A/c	50,000		
	4,09,800		4,09,800

(c) Partners' Capital Accounts

Date	Particulars	A	B	Date	Particulars	A	B
1.1.10	To Profit & Loss A/c	13,000	13,000	1.1.10	By Balance b/d	1,40,000	1,30,000
	To Drawings A/c	10,000	6,000				
29.6.10	To Balance c/d	<u>1,17,000</u>	<u>1,11,000</u>				
		<u>1,40,000</u>	<u>1,30,000</u>			<u>1,40,000</u>	<u>1,30,000</u>
30.6.10	To Drawings A/c	5,900	5,900	30.6.10	By Balance b/d	1,17,000	1,11,000
	To Shares in Limited Company A/c	1,72,900	1,66,900	30.6.10	By Profit & Loss Appropriation A/c	11,800	11,800
					By Realisation A/c	<u>50,000</u>	<u>50,000</u>
		<u>1,78,800</u>	<u>1,72,800</u>			<u>1,78,800</u>	<u>1,72,800</u>

Working Notes:

(1) Ascertainment of profit for the 6 months ended 30th June, 2010

Closing Assets:	Rs.	Rs.
Stock		75,000
Sundry Debtors		60,000
Machinery less depreciation		1,42,500
Leasehold premises less written off		<u>32,300</u>
		3,09,800

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Less: Closing liabilities:		
Sundry Creditors	50,000	
Bank overdraft	<u>20,000</u>	<u>70,000</u>
Closing Net Assets		2,39,800
Less: Opening combined capital:		
A – Rs.(1,40,000 – 13,000 – 10,000)	1,17,000	
B – Rs.(1,30,000 – 13,000 – 6,000)	<u>1,11,000</u>	<u>2,28,000</u>
Profit before adjustment of drawings		11,800
Add: Combined drawings during the 6 months (equal to profit)		<u>11,800</u>
Profit for 6 months		<u>23,600</u>

(2) Ascertainment of purchase consideration:

Closing net assets (as above) Rs.2,39,800 + Goodwill Rs.1,00,000 = Rs.3,39,800.

6. Journal Entries in the Books of ABC Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.2007	Employees compensation expenses account Dr. To Employees stock option outstanding account (Being compensation expenses recognized in respect of the employees stock option i.e. 1,000 options granted to employees at a discount of Rs.120 each, amortised on straight line basis over $2\frac{1}{2}$ years)	48,000	48,000
	Profit and loss account Dr. To Employees compensation expenses account (Being expenses transferred to profit and loss account at the end of the year)	48,000	48,000
31.3.2007	Employees compensation expenses account Dr. To Employees stock option outstanding account (Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of Rs. 120 each, amortised on	48,000	48,000

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	straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account Dr.	48,000		
	To Employees compensation expenses account			48,000
	(Being expenses transferred to profit and loss account at the end of the year)			
31.3.2009	Employees stock option outstanding account Dr. (W.N.1)	12,000		
	To General Reserve account (W.N.1)			12,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
30.6.2009	Bank A/c (600 x Rs.40) Dr.	24,000		
	Employee stock option outstanding account Dr. (600 x Rs.120)	72,000		
	To Equity share capital account (600 x Rs. 10)			6,000
	To Securities premium account (600 x Rs.150)			90,000
	(Being 600 employees stock option exercised at an exercise price of Rs. 40 each)			
01.10.2009	Employee stock option outstanding account Dr.	12,000		
	To General reserve account			12,000
	(Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of 100 options at the end of exercise of option period)			

Working Note:

On 31.3.2009, ABC Ltd. will examine its actual forfeitures and make necessary adjustments, if any to reflect expenses for the number of options that have actually vested. 700 employees stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

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	Rs.
No. of options actually vested (700 x Rs.120)	84,000
Less: Expenses recognized Rs.(48,000 + 48,000)	<u>96,000</u>
Excess expenses transferred to general reserve	<u>12,000</u>

7. Journal Entries (Rs. in crores)

Equity share buy back Account	Dr.	25	
To Bank Account			25
(Being 100 lakh equity shares bought back @ Rs.25 each)			
Equity Share Capital A/c	Dr.	10	
Revenue Reserves A/c	Dr.	15	
To Equity share buy back Account			25
(Being cancellation of bought back shares)			
13% Preference Share Capital A/c	Dr.	75	
To Preference Shareholders A/c			75
(Being amount due to preference shareholders on redemption of preference shares)			
Revenue Reserves A/c	Dr.	85	
To Capital Redemption Reserve A/c			85
(Being creation of capital redemption reserve as per requirements of section 77AA on buy back of equity shares and section 80 for redemption of preference shares out of profits)			
Preference Shareholders A/c	Dr.	75	
To Bank A/c			75
(Being amount paid to preference shareholders)			

Balance Sheet as at 1.4.2010

(After Buy-back and Redemption) (Rs. in crores)

Liabilities	Amount	Asset	Amount
Authorised Capital	125	Fixed Assets	150
Issued, Subscribed, Called-up and paid up Capital:		Investments	120
Equity Shares of Rs. 10 each fully paid-up	40	Current Assets, Loans and Advances (295-100)	195
Reserves & Surplus:			

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

Capital Redemption Reserve	85		
Capital Reserves	50		
Revenue Reserves (250-15-85)	150		
Current Liabilities and Provisions	140		
	465		465

8. Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriters

(Number of shares)

	P	Q	R	S	Total
Gross Liability	30,000	30,000	20,000	20,000	1,00,000
Less: Marked applications (excluding firm underwriting)	(19,000)	(10,000)	(21,000)	(8,000)	(58,000)
Balance	11,000	20,000	(1,000)	12,000	42,000
Less: Surplus of R allocated to P, Q and S in the ratio of 3:3:2	(375)	(375)	1,000	(250)	-
Balance	10,625	19,625	-	11,750	42,000
Less: Unmarked applications including firm underwriting	(5,700)	(5,700)	(3,800)	(3,800)	(19,000)
Net Liability	4,925	13,925	(3,800)	7,950	23,000
Less: Surplus of R allocated to P, Q and S in the ratio of 3:3:2	(1,425)	(1,425)	3,800	(950)	-
	3,500	12,500	-	7,000	23,000
Add: Firm underwriting	3,000	2,000	1,000	1,000	7,000
Total Liability	6,500	14,500	1,000	8,000	30,000

Calculation of underwriting commission:

As per law in force, underwriting commission is payable @ 5% of the issue price of shares.

Underwriting commission payable to P and Q = 5% of (Rs.15 × 30,000 shares)
= Rs.22,500.

Underwriting commission payable to R and S = 5% of (Rs.15 × 20,000 shares)
= Rs. 15,000.

PAPER – 5 : ADVANCED ACCOUNTING

Working Note:

Application received from public	70,000 shares
Add: Shares underwritten firm	7,000 shares
Total application	77,000 shares
Less: Marked applications	58,000 shares
Unmarked application including firm underwriting	19,000 shares

9. Journal Entries

Date	Particulars	Dr. Rs.	Cr. Rs.
1.10.2009	10% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (Being transfer of amount due on redemption of 10% debentures – nominal value Rs.10,00,000 plus premium Rs.40,000)	10,00,000 40,000	10,40,000
	Debentureholders A/c Dr. To 11% Preference Share Capital A/c To Securities Premium A/c (Being issue of 3,200 preference shares of Rs.100 each at a premium of Rs.30 each in exchange of 4,000 debentures)	4,16,000	3,20,000 96,000
1.10.2009	Debentureholders A/c Dr. Discount on Issue of 11% Second Debentures A/c Dr. To 11% Second Debentures A/c (Issue of 5,200 11% Second Debentures of Rs.100 each at a discount of Rs.4 in exchange of 4,800 Debentures)	4,99,200 20,800	5,20,000
	Debentureholders A/c Dr. To Bank A/c (Being the redemption of 1200 debentures by cash)	1,24,800	1,24,800

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

Working Notes:

(1) Redemption of debentures by issuing preference shares:

	Rs.
Claim of the holders of 4,000 debentures @ Rs.104	<u>4,16,000</u>
Number of preference shares to be issued $\left(\frac{\text{Rs.4,16,000}}{130} \right)$	3,200
	Rs.
Face value of preference shares @ Rs.100 each	3,20,000
Premium of preference shares @ Rs.30 each	96,000

(2) Redemption of debentures by issuing 11% Second Debentures:

	Rs.
Claim of the holders of 4,800 debentures @ Rs.104	<u>4,99,200</u>
Number of 11% Second Debentures to be issued $\left(\frac{\text{Rs.4,99,200}}{\text{Rs.96}} \right)$	5,200
	Rs.
Face value of 11% Second Debentures @ Rs.100 each	5,20,000
Discount on issue of debentures @ Rs.4 each	20,800

(3) Claim of the holders

	Rs.
Claim of the holders of 1,200 debentures @ Rs.104 (10,000 – 4,000 – 4,800 = 1,200)	<u>1,24,800</u>

10. Balance Sheet of M/s. Huge Ltd. after merger

Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed assets: (W.N.3C)	
Issued, subscribed and paid up share capital		Goodwill	3,80,000
92,400 Equity shares of Rs. 10 each	9,24,000	Sundry fixed assets	13,50,000

PAPER – 5 : ADVANCED ACCOUNTING

(of which 22,400 shares were issued for consideration other than cash)		(9,50,000 + 4,00,000)	
Reserves and surplus:		Investment	2,50,000
Securities premium	6,80,960	Current assets, loans and advances:	
General reserve	3,50,000	Stock (1,20,000 + 50,000)	1,70,000
Profit and loss A/c	2,10,000	Debtors (75,000 + 80,000)	1,55,000
Add: Proposed dividend		Advance tax	
Cancelled	<u>1,40,000</u>	(80,000 + 20,000)	1,00,000
Export profit reserve		Cash and bank balances	
(70,000 + 40,000)	1,10,000	(2,75,000 + 1,30,000 – 40)	4,04,960
Secured loans:		Miscellaneous	
12% Debenture		Expenditure to the extent not written off:	
(1,00,000 + 1,00,000)	2,00,000	Preliminary expenses	10,000
Current liabilities and provisions:		Amalgamation Adjustment A/c	40,000
Sundry creditors			
(40,000 + 45,000)	85,000		
Provision for tax			
(1,00,000 + 60,000)	1,60,000		
	28,59,960		28,59,960

Working Notes:

1. Calculation of purchase consideration:

Equity shares of Big Ltd. 25,000 shares
 Intrinsic value per share of Big Ltd. (W.N.2) Rs. 36.2
 Value of shares Rs. 9,05,000
 Intrinsic value per share of Huge Ltd. (W.N.2) Rs. 40.4
 No. of shares to be issued by Huge Ltd. Rs. 9,05,000/Rs.40.4 = 22,400.99 shares
 i.e 22,400 shares and cash for fraction i.e. .99 x Rs.40.4= Rs.40

Purchase consideration

i. 22,400 shares @ Rs.40.4
 Capital [Rs.10 / Share] 2,24,000
 Premium [Rs. 30.4 / Share] 6,80,960 = Rs. 9,04,960

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

- ii. Cash for fraction = Rs. 40
 iii. Total purchase consideration payable = Rs. 9,05,000

2. Intrinsic value per share:

	Huge Ltd.		Big Ltd.	
	Rs.	Rs.	Rs.	Rs.
a. Assets				
i. Goodwill (W.N.3)	13,65,000		3,80,000	
ii. Sundry fixed assets	9,50,000		4,00,000	
iii. Investments	2,00,000		50,000	
iv. Stock	1,20,000		50,000	
v. Debtors	75,000		80,000	
vi. Advance tax	80,000		20,000	
vii. Cash and bank balance	<u>2,75,000</u>	30,65,000	<u>1,30,000</u>	11,10,000
b. Liabilities				
i. 12% Debentures	1,00,000		1,00,000	
ii. Sundry creditors	40,000		45,000	
iii. Provision for tax	<u>1,00,000</u>	<u>(2,40,000)</u>	<u>60,000</u>	<u>(2,05,000)</u>
c. Net assets		<u>28,25,000</u>		<u>9,05,000</u>
d. No. of shares		70,000		25,000
e. Intrinsic value per share (upto one decimal)		40.4		36.2

3. Valuation of goodwill

A. Capital Employed

	Huge Ltd.		Big Ltd.	
	Rs.	Rs.	Rs.	Rs.
Assets				
i. Sundry fixed assets	9,50,000		4,00,000	
ii. Investment (Non-trade)	-		-	
iii. Stock	1,20,000		50,000	
iv. Debtors	75,000		80,000	

PAPER – 5 : ADVANCED ACCOUNTING

v. Advance tax	80,000		20,000	
vi. Cash and bank balance	<u>2,75,000</u>	15,00,000	<u>1,30,000</u>	6,80,000
Liabilities:				
i. 12% Debentures	1,00,000		1,00,000	
ii. Sundry creditors	40,000		45,000	
iii. Provision for tax	<u>1,00,000</u>	<u>(2,40,000)</u>	<u>60,000</u>	<u>(2,05,000)</u>
Capital employed		<u>12,60,000</u>		<u>4,75,000</u>

B. Average pre-tax profit:

Particulars	Huge Ltd. Rs.	Big Ltd. Rs.
2007	5,00,000	1,50,000
2008	6,50,000	2,10,000
2009	<u>5,75,000</u>	<u>1,80,000</u>
Total (a+b+c)	<u>17,25,000</u>	<u>5,40,000</u>
Simple Average [(a) ÷ 3]	5,75,000	1,80,000
Less: Non-trading income		
(2,00,000 @ 25%)	(50,000)	
(50,000 @ 18%)	—	<u>(9,000)</u>
Average profit	<u>5,25,000</u>	<u>1,71,000</u>

C. Computation of goodwill:

Particulars	Huge Ltd.	Big Ltd.
Capitalised value of average profits		
$\frac{5,25,000}{.20}; \frac{1,71,000}{.20}$	26,25,000	8,55,000
Capital employed	<u>12,60,000</u>	<u>4,75,000</u>
Goodwill	<u>13,65,000</u>	<u>3,80,000</u>

11.

In the books of Rebuilt Ltd.

Journal Entries

	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity share capital A/c (Rs.50) Dr. To Equity share capital A/c (Rs. 2.50)	7,50,000	37,500

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

	To Reconstruction A/c (Being equity capital reduced to nominal value of Rs.2.50 each)		7,12,500
2.	Bank A/c Dr. To Equity share capital (Being 3 right shares against each share was issued and subscribed)	1,12,500	1,12,500
3.	7% Preference share capital A/c (Rs.50) Dr. Reconstruction A/c Dr. To 5% Preference share capital (Rs.10) To equity share capital (Rs.50) (Being 7% preference shares of Rs.50 each converted to 5% preference shares of Rs.10 each and also given to them 6 equity shares for every share held)	6,00,000 60,000	4,80,000 1,80,000
4.	Loan A/c Dr. To 5% Preference share capital A/c To Equity share capital A/c (Being loan to the extent of Rs.1,50,000 converted into share capital)	1,50,000	1,20,000 30,000
5.	Bank A/c Dr. To Equity share application money A/c (Being shares subscribed by the directors)	1,00,000	1,00,000
6.	Equity share application money A/c Dr. To Equity share capital A/c (Being application money transferred to capital A/c)	1,00,000	1,00,000
7.	Loan A/c Dr. To Bank A/c (Being loan repaid)	2,00,000	2,00,000
8.	Reconstruction A/c Dr. To Preliminary expenses A/c To Profit and loss A/c To Plant A/c To Trademarks and Goodwill A/c (Bal.fig.) (Being losses and assets written off to the extent required)	6,52,500	11,000 4,40,000 35,000 1,66,500

PAPER – 5 : ADVANCED ACCOUNTING

**Balance Sheet of Rebuilt Ltd. (and reduced)
as on 31.3.2010**

Liabilities	Rs.	Assets	Rs.
Authorised capital:		Fixed assets	
65,000 Preference shares of Rs. 10 each	6,50,000	Building at cost less depreciation	4,00,000
3,00,000 Equity shares of Rs. 2.50 each	<u>7,50,000</u>	Plant at cost less depreciation	2,33,000
Issued, subscribed and paid up:		Trademarks and Goodwill	1,51,500
1,80,000 equity shares of Rs. 2.5 each	4,60,000	Current assets:	
60,000, 5% Preference shares of Rs. 10 each	6,00,000	Stock	4,00,000
Loan	2,23,000	Debtors	3,28,000
Current liabilities and Provisions:		Bank (1,12,500 + 1,00,000 – 2,00,000)	12,500
Sundry creditors	2,07,000		
Other liabilities	<u>35,000</u>		
	<u>15,25,000</u>		<u>15,25,000</u>

12.

In the books of Sum up Ltd.

Liquidator's Statement of Account

Receipts	Rs.	Payment	Rs.
To Cash at Bank	50,000	By Liquidators' expenses	4,000
To Realisation of Assets:		By Liquidator's Commission @ 2% on Rs.3,50,000	7,000
Machinery	1,66,000	By Preferential creditors:	
Furniture	8,000	Income-tax payable	10,000
Stock	1,10,000	By Unsecured creditors	3,50,000
Less: Secured bank loan	<u>1,00,000</u>		
	10,000	By Preference shareholders:	
Debtors	2,30,000	1,000, 6% preference shares of Rs. 100 fully paid	1,00,000
To Call money on 1,800 equity shares @ Rs. 15 per share (W.N.2)	27,000		

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

		By Final Payment to equity shareholders: 2,000 equity shares of Rs. 100 each fully paid up @ Rs. 10 per share (W.N.2)	20,000
	4,91,000		4,91,000

Working Notes:

- (1) Deficiency/Surplus to equity shareholders

	Rs.
Total of payment side excluding final payment to equity shareholders	4,71,000
Less: Total of receipt excluding call money	<u>4,64,000</u>
Deficit	(7,000)
Add: Notional call on 1,800 equity shares @ Rs. 25 each	<u>45,000</u>
Notional Surplus	<u>38,000</u>
Notional surplus per share Rs. $\frac{38,000}{3,800} = \text{Rs. } 10.$	

- (2) Call money of partly paid up shares and final payment of fully paid up shares:

So 1,800 partly paid up equity shareholders should be called @ Rs. 15 per share (i.e. Rs. 25 – Rs. 10).

2,000 fully paid up equity shareholders will get final payment @ Rs. 10 per share from the net proceeds of call on partly paid up shares

13. Calculation of unexpired discounts or rebate on bills discounted

Date of Bills	Date of Maturity including three days of grace	No. of days after March 31	Amount Rs.	Rate of discount % p.a.	Total Annual Discount	Proportionate Discount for days after 31 st March
2010 Jan. 13	2010 May 16	46	7,50,000	12	90,000	$11,342 \left(90,000 \times \frac{46}{365} \right)$
Feb. 17	May 20	50	6,00,000	10	60,000	$8,219 \left(60,000 \times \frac{50}{365} \right)$

PAPER – 5 : ADVANCED ACCOUNTING

March 6	July 9	100	4,00,000	11	44,000	$12,055 \left(44,000 \times \frac{100}{365} \right)$
March 16	May 19	49	2,00,000	10	20,000	$2,685 \left(20,000 \times \frac{49}{365} \right)$
						34,301

So, unexpired discounts on 31st March, 2010 = Rs.34,301.

The amount to be credited to Profit and Loss Account is ascertained from the Discount Account as follows:

Discount Account

2010		Rs.	2010		Rs.
Mar. 31	To Profit and Loss A/c (Bal. fig.)	1,41,700	Mar. 31	By Sundries	1,45,500
Mar. 31	To Rebate on Bills Discounted (on 31.3.10)	34,301		By Rebate on Bills Discounted (on 1.4.09)	30,501
		1,76,001			1,76,001

Journal Entries

2010			Rs.	Rs.
March 31	Rebate on Bills Discounted Account	Dr.	30,501	
	To Discount Account			30,501
	(Being unexpired discount brought forward from the previous year, credited to Discount Account)			
March 31	Discount Account	Dr.	34,301	
	To Rebate on Bills Discounted Account			34,301
	(Being provision for unexpired discount required at the end of the year)			
March 31	Discount Account	Dr.	1,41,700	
	To Profit and Loss Account			1,41,700
	(Being discount earned for the year 2009-2010 transferred)			

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

Balance Sheet (An extract)

As at 31.3.2010

Liabilities	Rs.	Assets	Rs.
Other Liabilities		Advances	
Rebate on Bills Discounted	34,301	Bills Discounted	51,50,000

14.

Sanchay Bank

Profit & Loss Account

For the year ended 31st March, 2010

		Schedule No.	Year ended 31.3.2010 Rs.(000)
I.	<i>Income</i>		
	Interest Earned	13	7,420
	Other Income	14	<u>82</u>
	Total		<u>7,502</u>
II.	<i>Expenditure</i>		
	Interest Expended	15	3,850
	Operating Expenses	16	822
	Provisions & Contingencies		<u>200</u>
	Total		<u>4,872</u>
III.	<i>Profit/Loss</i>		
	Net Profit for the year		2,630
	Profit brought forward		<u>---</u>
	Total		<u>2,630</u>
IV.	<i>Appropriations:</i>		
	Transfer to Statutory Reserve (25% of Rs.2,630)		658
	Transfer to Other Reserves		1,557
	Transfer to Central Government		200
	Balance carried over to Balance Sheet		<u>215</u>
			<u>2,630</u>

PAPER – 5 : ADVANCED ACCOUNTING

Working Notes:

Schedule 13 – Interest Earned

		Rs.('000)
1.	Interest/discount on advances/bills (2,590+ 1,550 + 2,230 + 1,540 – 490)	7,420
2.	Interest on investments	--
3.	Interest on balances with RBI & other interbank funds	---
4.	Others	---
		<u>7,420</u>

Schedule 14 – Other Income

		Rs.('000)
1.	Commission, exchange and brokerage	82
2.	Profit /(Loss) on sale of investment	-
3.	Profit /(Loss) on revaluation of investment	-
4.	Profit /(Loss) on sale of land, building and other assets	-
5.	Income earned by way of dividends etc. from subsidiaries, companies and/or joint ventures abroad/in India	-
6.	Miscellaneous income	-
		<u>82</u>

Schedule 15 – Interest Expended

		Rs.('000)
1.	Interest on Deposits (3,170 + 680)	3,850
2.	Interest on Reserve Bank of India/inter-bank borrowings	-
3.	Others	-
		<u>3,850</u>

Schedule 16 – Operating Expenses

		Rs.('000)
I.	Payment to Employees	540
II.	Rent, Taxes & Lighting	180
III.	Printing and Stationery	29
IV.	Directors' Fee, Allowances and Expenses	30
V.	Auditors' Fee & Expenses	12
VI.	Postage, Telegrams & Telephones	14
VII.	Sundry Charges	<u>17</u>
		<u>822</u>

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

15.

Form B - RA

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA:

Revenue Account for the year ended 31st March, 2010

	Particulars	Schedule	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
1.	Premium earned (net)	1	60.00	
2.	Profit/Loss on sale/redemption of investments		-	
3.	Others		-	
4.	Interest, Dividend & Rent-Gross (10+5)		<u>15.00</u>	
	Total (A)		<u>75.00</u>	
1.	Claims Incurred (Net)	2	34.00	
2.	Commission	3	3.75	
3.	Operating expenses related to insurance business	4	<u>16.25</u>	
	Total (B)		<u>54.00</u>	
	Operating Profit/(Loss) from Marine Business (C) = (A-B)		21.00	
	Appropriations			
	Transfer to Shareholder's Account			
	Transfer to Catastrophe Reserve			
	Transfer to other Reserves (to be specified)			
	Total (C)		<u>21.00</u>	

Form B – PL

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA:

Profit & Loss Account for the year ended 31st March, 2010

	Particulars	Schedule	Current Year (Rs. In Lakhs)	Previous Year (Rs. In Lakhs)
1.	Operating Profit from marine insurance		21.00	
2.	Income from investments		-	

PAPER – 5 : ADVANCED ACCOUNTING

3.	Other Income		<u>-</u>	
	Total (A)		<u>21.00</u>	
4.	Provision (other than taxation)			
	Diminution in the value of investment in shares	2.00		
	Less: increment in the value of investment in govt. securities	<u>(5.00)</u>	(3.00)	
5.	Other expenses		<u>-</u>	
	Total (B)		<u>(3.00)</u>	
	Profit before tax A-B [i.e. 21 – (-3)]		24.00	
	Less: Provision for taxation		<u>(13.65)</u>	
	Total		10.35	
	Appropriations		Nil	
	Balance of profit/loss brought forward from last year		<u>10.00</u>	
	Balance carried forward to Balance Sheet		<u>20.35</u>	

Schedule 1: Premium Earned (Net)

Particulars	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
Premium from direct business	50.00	
Add: Premium on re-insurance accepted	<u>5.00</u>	
	55.00	
Less: Premium on re-insurance ceded	<u>10.00</u>	
Net Premium	45.00	
Adjustment for change in reserve for unexpired risk [(opening) 60 – (Closing) 45]	<u>15.00</u>	
	<u>60.00</u>	

Schedule 2: Claims incurred (Net)

Particulars	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
Claims paid		
Direct	25.00	
Add: Reinsurance accepted	<u>4.00</u>	

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

	29.00	
Less: Reinsurance ceded	<u>5.00</u>	
Net Claims paid	24.00	
Add: Claims outstanding at the end of the year	<u>30.00</u>	
	54.00	
Less: Claims outstanding at the beginning of the year	<u>20.00</u>	
Total claims incurred	<u>34.00</u>	

Schedule 3: Commission

Particulars	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
Commission paid		
Direct	5.00	
Add: Re-insurance accepted	<u>1.25</u>	
	6.25	
Less: Commission on reinsurance ceded	<u>2.50</u>	
Net Commission	<u>3.75</u>	

Schedule 4: Operating Expenses

Particulars	Current Year (Rs.in Lakhs)	Previous Year (Rs.in Lakhs)
Expenses of Management	5.00	
Bad Debts	10.00	
Other expenses	<u>1.25</u>	
	<u>16.25</u>	

Working Note:

Provision for income tax:	(Rs. in lakhs)
Income (excluding revaluation)	18.00
Add: Tax deducted at source	<u>3.00</u>
	<u>21.00</u>
Provision @ 65% of Rs. 21.00 lakhs	13.65

PAPER – 5 : ADVANCED ACCOUNTING

16.

Electric Supply Co.

Journal Entries

		(Rs. in Lakhs)	
Works A/c	Dr.	8,68,825	
Replacement A/c	Dr.	11,21,175	
To Bank A/c			19,90,000
(Being the amount paid for Replacement of assets allocated between capital and revenue)			
Mains A/c	Dr.	13,800	
To Replacement A/c			13,800
(Being the cost of material of old Main used in new Mains)			
Bank A/c	Dr.	25,200	
To Replacement A/c			25,200
(Being the amount realised from the sale of material of old Mains)			
Revenue A/c	Dr.	10,82,175	
To Replacement A/c			10,82,175
(Being the balance of replacement A/c transferred to Revenue A/c)			

Mains Account

		Rs.			Rs.
To	Balance b/d	9,90,000	By	Balance c/d	18,72,625
To	Bank	8,68,825			
To	Replacement A/c	13,800			
		18,72,625			18,72,625

Replacement Account

		Rs.			Rs.
To	Bank A/c	11,21,175	By	Bank A/c	25,200
			By	Mains A/c	13,800
			By	Revenue A/c	10,82,175
		11,21,175			11,21,175

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Working Notes:

(1) Calculation of Current Replacement Cost

	Material		Labour		Total
		Rs.		Rs.	Rs.
Original cost	70%	6,93,000	30%	2,97,000	9,90,000
Add: Increase	12½%	86,625	15%	44,550	1,31,175
Current Replacement Cost		7,79,625		3,41,550	11,21,175

(2) Calculation of Charge to Revenue (or Net Cost of Replacement)

		Rs.
Current Replacement Cost		11,21,175
Less: Re-use of material	13,800	
Sale of Material	25,200	39,000
Charge to Revenue		10,82,175

(3) Amount to be capitalized:

	Rs.
Cost of new Mains	19,90,000
Less: Estimated replacement cost	11,21,175
Amount to be capitalised	8,68,825

17. (a) Calculation of Clear Profit

	Rs.	Rs.
Income derived from:		
Sale of energy		12,40,000
Meter rents		90,000
Transfer fees		1,000
Contingency reserve investment income		5,000
Interest on bank deposits		600
		13,36,600
Less: Expenses:		
Cost of generation	6,05,000	
Distribution and selling expenses	65,000	
Rent, rates and taxes	18,000	

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Interest on loan from Electricity Board	9,000	
Interest on security deposits	1,000	
Audit fees	5,000	
Management expenses	90,000	
Depreciation	60,000	
Contribution to Provident Fund	32,000	8,85,000
		4,51,600
<i>Less: Special Appropriations:</i>		
Intangible assets written off	3,000	
Transfer to Contingency Reserve	8,000	11,000
Clear Profit		4,40,600

(b) Calculation of Capital Base

	Rs.	Rs.
Original Cost of Fixed Assets	27,00,000	
Less: Contribution from consumers	2,00,000	25,00,000
Cost of intangible assets		50,000
Contingency reserve investments		50,000
Working Capital [$\frac{1}{2}$ (40,000 + 60,000) + $\frac{1}{2}$ (30,000 + 50,000)]		90,000
		26,90,000
Less: Depreciation written off (5,00,000+60,000)	5,60,000	
Intangible assets written off (40,000+3,000)	43,000	
Loan from Electricity Board	90,000	
Tariffs & Dividend Control Reserve	80,000	
Security Deposits of Customers	20,000	
Development Reserve	1,20,000	
Amount carried forward for distribution to consumers	15,000	9,28,000
Capital Base		17,62,000

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(c) Calculation of Reasonable Return

	Rs.
Bank rate 8% + 2% = 10% on Capital Base of Rs.17,62,000.	1,76,200
Add: Interest income on bank deposits	600
½% on Bank loan from Electricity Board Rs.90,000	450
½% on development reserve Rs.1,20,000	600
Reasonable Return	1,77,850

(d) Disposal of surplus

	Rs.	Rs.
Clear Profit	4,40,600	
Less: Reasonable Return	<u>1,77,850</u>	
Excess	2,62,750	
(Subject to the limit of 20% of reasonable return)		
i.e. $\frac{20}{100} \times 1,77,850 = \text{Rs.} 35,570$		
Surplus		35,570
Excess Rs.2,27,180 (i.e. 2,62,750 – 35,570) is transferred to consumers benefit reserve.		
(i) Amount at disposal of company (Being $\frac{1}{3}$ of surplus or 5% of Reasonable Return whichever is less)		
5% of Reasonable Return	8,892	
$\frac{1}{3}$ of Surplus	11,856	8,892
(ii) Amount transferred to Tariffs & Dividend Control Reserve = $\left[\frac{1}{2} \times (35,570 - 8,892) \right]$		13,339
(iii) Amount transferred to Consumers Benefit Reserve		13,339
Total		35,570

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(e) Statement of disposal

	Rs.
Amount available at the disposal of the company = Rs.1,77,850 + Rs.8,892	1,86,742
Amount transferred to Tariffs & Dividend Control Reserve	13,339
Amount transferred to Consumers Rebate Reserve = Rs.2,27,180 + Rs.13,339	<u>2,40,519</u>
	<u>4,40,600</u>

**18. Trading and Profit and Loss Account
for the year ending on 31st March 2010**

Particulars	H.O. (Rs.)	Branch (Rs.)	Particulars	H.O. (Rs.)	Branch (Rs.)
To Purchases	4,00,000		By Sales	3,20,000	1,00,000
To Packing material consumed (6,000 – 1,000)	5,000		By Goods sent to Branch A/c (in transit Rs.5,400)	1,13,400	
To Goods from H.O.		1,08,000	By Stock damaged and shortage		1,540
To Gross Profit c/d [Working Notes (i) & (ii)]	76,600	10,000	By Closing Stock (includes unpacked goods of Rs.5,000) (Bal.fig.)	48,200	16,460
	4,81,600	1,18,000		4,81,600	1,18,000
To Salaries and Wages	20,000	3,000	By Gross Profit b/d	76,600	10,000
To Selling Expenses	16,000	800			
To Stock Reserve (Unrealised Profit)	2,350				
To Stock damaged and shortage	770	770			
To Net Profit t/f to Capital A/c	37,480	5,430			
	76,600	10,000		76,600	10,000

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Balance Sheet as at 31st March, 2010

Liabilities	Rs.	Assets	Rs.
Capital	40,000	Stock-in-trade:	
Add: Net Profit	<u>42,910</u>	H.O.: Packed	43,200
	82,910	Unpacked	5,000
Less: Drawings	<u>10,000</u>	Packing Material	<u>1,000</u>
	72,910		49,200
Sundry Creditors:		Branch: In hand	16,460
H.O.	26,600	In transit	<u>5,400</u>
Branch	<u>5,000</u>		21,860
	31,600	Less: Unrealised Profit	<u>2,350</u>
			19,510
		Sundry Debtors: H.O.	28,000
		Branch	<u>4,200</u>
			32,200
		Cash at Bank	2,000
		Cash-in-transit	<u>1,600</u>
	<u>1,04,510</u>		<u>1,04,510</u>

Working Notes:

	Rs.
(i) Gross Profit made by Head Office (20% of Sales of Rs. 3,20,000)	64,000
10/90 of Goods sent to Branch [(Rs. 1,08,000 + Rs. 5,400) x 1/9]	<u>12,600</u>
(Since Invoice Price is 90% of normal selling price)	<u>76,600</u>
(ii) The Gross Profit made by branch is 10% of sales (10% of Rs. 1,00,000)	10,000
(iii) The amount to be written off at invoice value at branch is:	
Amount written off on damaged goods	1,090
Invoice price of deficit in stock (Rs. 500 x 90/100)	<u>450</u>
	1,540
(iv) Value of damaged goods included in Closing Stock	
A. Selling Price of Goods Damaged	2,000
B. Invoice Price of Goods Damaged (Rs. 2,000 x 90/100)	1,800
C. Amount already written off	1,090
D. Amount still included in Closing Stock (B – C)	710

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(v)	Calculation of Stock Reserve Required	
A.	Stock (as per Trading Account)	16,460
B.	Less: Value of damaged goods included	710
C.	Value of undamaged in hand (A – B)	15,750
D.	Add: Goods-in-transit	5,400
E.	Value to Total Goods (C + D)	21,150
F.	Stock Reserve required (Rs. 21,150 x 10/90)	2,350

19. Departmental Trading Account

For the year ending 31st December, 2009

	A Rs.	B Rs.	C Rs.		A Rs.	B Rs.	C Rs.
To Opening stock	24,000	36,000	12,000	By Sales	1,72,500	1,59,400	74,600
To Purchases	1,46,000	1,24,000	48,000	By Closing stock	30,000	40,000	10,000
To Gross Profit	<u>32,500</u>	<u>39,400</u>	<u>24,600</u>				
	<u>2,02,500</u>	<u>1,99,400</u>	<u>84,600</u>		<u>2,02,500</u>	<u>1,99,400</u>	<u>84,600</u>

Working Notes:

		Departments		
		A Rs.	B Rs.	C Rs.
(1)	Ascertainment of cost of sales:			
	Sales at actual price	1,72,500	1,59,400	74,600
	Less: Discounted sales price	(7,500)	(2,400)	(600)
		1,65,000	1,57,000	74,000
	Add: Sales at normal selling price	10,000	3,000	1,000
	Total sales at normal prices	1,75,000	1,60,000	75,000
	Profit on normal prices	20%	25%	33 $\frac{1}{3}$ %
	Cost of goods sold as a % of sales	80%	75%	66 $\frac{2}{3}$ %
	Value of cost of goods sold	1,40,000	1,20,000	50,000

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		Rs.	Rs.	Rs.
(2)	Ascertainment of closing stocks:			
	Opening stocks	24,000	36,000	12,000
	Purchases	1,46,000	1,24,000	48,000
		1,70,000	1,60,000	60,000
	Less: Cost of goods sold	1,40,000	1,20,000	50,000
	Closing stocks	30,000	40,000	10,000

20. Statement of liability as contributories of former members

Creditors outstanding on the date of transfer (ceasing to be member)			Q	R/X	S	U	Amount to be paid to creditors
No. of Shares			400	200	700	1,000	
2009		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Feb. 15		12,500	2,174	1,087	3,804	5,435	12,500
Feb. 28	15,000						
	<u>(12,500)</u>	2,500	—	263	921	1,316	2,500
March 15	18,000						
	<u>(15,000)</u>	3,000	—	316	1,105	1,579	3,000
April 5	30,000						
	<u>(18,000)</u>	<u>12,000</u>		<u>2,000</u>		<u>10,000</u>	<u>12,000</u>
Total (a)		<u>30,000</u>	<u>2,174</u>	<u>3,666</u>	<u>5,830</u>	<u>18,330</u>	<u>30,000</u>
Maximum Liability @ Rs. 20 per share on shares held (b)			8,000	4,000	14,000	20,000	
Lower of (a) and (b)			2,174	3,666	5,830	18,330	

Working Note :

The transferors are P, Q, S, T and U. X to whom shares were transmitted on demise of his father R would be liable as an existing member contributory. He steps into the shoes of his deceased father under section 430. His maximum liability would be at Rs. 20 per share on 200 shares received on transmission i.e. for Rs. 4,000.

P will not be liable to pay any amount as the winding up proceedings commenced after one year from the date of the transfer. T also will not be liable as the transferee Z has paid the balance Rs.20 per share as call in advance. Q, R/X, S and U will be liable, as former members, to the maximum extent as indicated, provided the transferees do not pay the calls.

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21. (a) No, the borrowing cost for the period in which no activity for the construction of building has been started, cannot be capitalised.
- (b) AS 20, 'Earnings per Share' requires disclosure of both basic and diluted EPS even when there is a loss per share.
- (c) (a) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', prior period items are incomes or expenses arising out of errors in one or more prior accounting periods. The question is "whether co. has committed an error in 2008-09 by not recognising the subsidy?" The answer is there was no error, AS 12 (para 13) permits recognition of grant only when there is reasonable assurance that (i) the enterprise will comply with the conditions attached to them, (ii) the subsidy will be received. Mere making application does not provide the reasonable assurance that the subsidy will be received. Letter of sanction from IREDA is required to provide this assurance. Hence the company was not recognising the grant. Further, AS 4 requires adjustment of events occurring after the balance sheet date only up to the date of approval of accounts by the Board of Directors. In view of this, the company is correct in not adjusting the same in the accounts for the year 2008-09. Hence, this is not a prior period item.
- (b) The subsidy should be deducted from the cost of the generator. The revised unamortised, amount of generator should be written off over the remaining useful life.
- Alternatively, the same may be treated as deferred income and allocated over the remaining useful life in the proportion in which depreciation is charged.
- (d) Para 3.2 of AS 4 (Revised) on 'Contingencies and Events Occurring after the Balance Sheet Date' defines events occurring after the balance sheet date as significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors in the case of a company. The given case is discussed in the light of the above mentioned definition and requirements given in paras 13-15 of the said AS 4 (Revised).
- In this case the incidence, which was expected to push up cost became evident after the date of approval of the accounts. So that was not an 'event occurring after the balance sheet date'. However, this may be mentioned in the Directors' Report.
22. (a) The error in recording of closing stock of the year ended 31st March, 2009 must have also resulted in overstatement of profits of previous year, brought forward to the current year ended 31st March, 2010. Vide para 4 of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, the rectifications as required in the current year are 'Prior Period Items'. Accordingly, Rs. 20,000 should be deducted from opening stock in the profit and loss account. and Rs. 20,000 should be charged as prior period adjustment in the profit and loss account for the year ended 31st March 2010 in accordance with para 15 of AS 5 (Revised), which requires that the nature and amount of prior period

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items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

- (b) The financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures described in paragraphs 8 to 16 of AS 11 (Revised 2003). The individual items in the financial statements of a foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself.

Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of transaction. For practical reasons, a rate that approximates the actual rate at the date of transaction is often used, for example, an average rate for a week or a month may be used for all transactions in each foreign currency during the period. The foreign currency monetary items (for example cash, receivables, payables) should be reported using the closing rate at each balance sheet date. Non-monetary items (for example, fixed assets, inventories, investments in equity shares) which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of transaction. Thus the cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If the fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realisable value is determined which is generally closing rate.

Exchange difference arising on the translation of the financial statements of integral foreign operation should be charged to profit and loss account. Exchange difference arising on the translation of the financial statement of foreign operation may have tax effect which should be dealt as per AS 22 'Accounting for Taxes on Income'.

Thus, the treatment by the management of translating all assets and liabilities; income and expenditure items in respect of foreign branches at the prevailing rate at the year end and also the treatment of resultant exchange difference is not in consonance with AS 11 (Revised 2003).

Note: The above answer has been given on the basis that the foreign branches referred in the question are integral foreign operations.

- (c) As per para 41 of AS 26 'Intangible Assets', no intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred. Thus the company cannot treat the expenditure as deferred revenue expenditure. The entire amount of Rs. 33 lakhs spent on research project should be charged as an expense in the year ended 31st March, 2010.

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- (d) In accordance with AS 29 'Provisions, Contingent Liabilities and Contingent Assets' and ASI 30 'Applicability of AS 29 to Onerous Contracts', if an enterprise has a contract that is onerous, the present obligation under the contract should be recognised and measured as a provision. In the given case, the operating lease contract has become onerous* as the economic benefit of lease contract for next 33 months up to 31.12.2010 will be nil. However, the lessee, Mini Ltd., has to pay lease rent of Rs. 66,00,000 (i.e. 2,00,000 p.m. for next 33 months).

Therefore, provision on account of Rs.66,00,000 is to be provided in the accounts for the year ending 31.03.08. Hence auditor is right.

23. (a) (i) Paragraph 4 of Accounting Standard 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods".
- Rectification of error in stock valuation is a prior period item vide Para 4 of AS 5. Rs.14.5 lakhs must be added to the opening stock of 1.4.2009. It is also necessary to show Rs. 14.5 lakhs as a prior period adjustment in the Profit and loss Account below the line. Separate disclosure of this item as a prior period item is required as per Para 15 of AS 5.
- (ii) In the given case, the company spent Rs. 45 lakhs for publicity and research of a new product which was marketed but proved to be a failure. It is clear that in future there will be no related further revenue/benefit because of the failure of the product. Thus according to paras 41 to 43 of AS 26 'Intangible Assets', the company should charge the total amount of Rs. 45 lakhs as an expense in the profit and loss account.
- (b) As per paras 8.2 and 13 of Accounting Standard 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', Assets and Liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist estimation of amounts relating to conditions existing at the balance sheet date.
- So, full provision for bad debt amounting to Rs. 2 lakhs should be made to cover the loss arising due to the insolvency in the Final Accounts for the year ended 31st March, 2010. It is because earthquake took place before the balance sheet date.
- Had the earthquake taken place after 31st March, 2010, then mere disclosure required as per para 15, would have been sufficient.
- (c) As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Sundry creditors is a monetary item, hence should be valued at the closing rate i.e, Rs.48 at 31st March, 2010 irrespective of the payment for the same subsequently at lower rate in the next financial year. The

* For a contract to qualify as an onerous contract, the unavoidable costs of meeting the obligation under the contract should exceed the economic benefits expected to be received under it.

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difference of Rs.5 (48-43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2010 and is not to be adjusted against the cost of raw- materials. In the subsequent year, the company would record an exchange gain of Re.1 per US dollar, i.e., the difference between Rs.48 and Rs.47 per Us dollar. Hence, the accounting treatment adopted by the company is incorrect.

- 24. (a)** Two methods of presentation of financial statements of grants related to specific fixed assets are regarded as acceptable alternatives as per AS 12 'Accounting for Government Grants'.

I Method

(Rs. in lakhs)		
Credit the grant to fixed asset		
Bank A/c Dr.	4	
To Fixed Asset A/c		4
(The book value is reduced to Rs.6 lakh, the estimated scrap value is Rs. 2 lakh and life 4 years, hence depreciation to be charged on this asset every year will be Rs. 1 lakh)		

II Method

(Rs. in lakhs)		
Credit the grant as deferred income		
Bank A/c Dr.	4	
To Deferred Govt. Grant A/c		4
(The book value of asset is Rs. 10 lakhs, residual value is Rs. 2 lakhs and life is 4 years, hence depreciation to be charged Rs. 2 lakhs p.a. for 4 years)		

The grant has to be recognised in P&L account over the life of asset in proportion to depreciation. Depreciation is Rs. 2 lakhs p.a. for 4 years hence, grant to be written-off will be Rs. 1 lakh p.a. for 4 years. The entry every year will be as follows every year.

Deferred Government Grant A/c	Dr.	1	
To Profit and Loss A/c			1

- (b)** Rs.

Interest for 2008-09 (1.7.2008 to 30.3.2009) = $10,00,000 \times \frac{12}{100} \times \frac{9}{12}$	90,000
Less: Interest earned on surplus funds	<u>15,000</u>
Borrowing cost to be capitalised with asset 'A'	<u>75,000</u>

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$$\text{Interest for 2009-10 (upto 30.6.2009)} = 10,00,000 \times \frac{12}{100} \times \frac{3}{12} \quad 30,000$$

Rs. 2 lakhs is repaid after one year i.e. on 30.6.2009 (1.7.09 to 31.3.10)

$$= 8,00,000 \times \frac{12}{100} \times \frac{9}{12} \quad \underline{72,000}$$

$$\text{Borrowing cost} \quad \underline{1,02,000}$$

Out of the above Rs. 30,000 will be capitalized with asset 'A' as the asset is now completed. The cost incurred thereafter i.e. Rs. 72,000 will be charged to Profit and Loss account.

(c) Net profit		Rs. 2,00,000
Less : Preference Dividend 5,00,000 x 10%	50,000	
Corporate Dividend tax 15%	<u>7,500</u>	Rs. <u>57,500</u>
Net profit attributable to equity shareholders		Rs. <u>1,42,500</u>

Equity Dividend and Corporate Dividend Tax thereon are not to be considered for calculating EPS. These are not deducted from net profit/loss for the period available for equity shareholders.

$$\text{Weighted average number of shares} = 3000 \times \frac{12}{12} + 2000 \times \frac{6}{12} = 4,000$$

$$\therefore \text{Basic EPS} = \frac{1,42,500}{4,000} = \text{Rs. } 35.63.$$

25. (a) As per para 23 of AS 26 'Intangible Assets' intangible assets should be measured initially at cost. Therefore, Devansh Co. Ltd. should amortise the trademark at its cost of Rs.10,00,000. The unamortised cost on the seller's books (Rs.5,00,000) is irrelevant to the buyer. Although the trademark has a remaining useful life of 20 years, intangible assets are generally amortised over a maximum period of 10 years per AS 26. Therefore, for the year 2009, amortisation expense and accumulated amortisation is 1,00,000 (Rs.10,00,000 ÷ 10 years).

- (b) Present value of residual value = Rs. 40,000 × 0.7513 = Rs. 30,052

$$\text{Present value of lease payments} = \text{Rs. } 3,00,000 - \text{Rs. } 30,052 = \text{Rs. } 2,69,948.$$

The present value of lease payments being 89.98% $\left(\frac{2,69,948}{3,00,000} \times 100 \right)$ of the fair value, i.e. being a substantial portion thereof, the lease constitutes a finance lease.

Note: AS 4, 5, 11, 12, 16, 19, 20, 26 & 29 are applicable for November, 2010 Examination.

Appendix

Companies (Accounting Standards) Amendment Rules, 2009 – Amendments in Annexure

NOTIFICATION NO. G.S.R.225 (E)

DATED 31-3-2009

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 read with sub-section (1) of section 21A and sub-section (3C) of section 211 of the Companies Act, 1956 (1 of 1956), the Central Government in consultation with the National Advisory Committee on Accounting Standards, hereby makes the following rules to amend the Companies (Accounting Standards) Rules, 2006, namely:-

1. (1) These rules may be called the Companies (Accounting Standards) Amendment Rules, 2009.
(2) They shall come into force on the date of their publication in the Official Gazette.
2. In the Companies (Accounting Standard) Rules, 2006, in the Annexure, under the heading "B. ACCOUNTING STANDARDS", in the sub-heading "Accounting Standard (AS) 11" relating to "The Effects of Changes in Foreign Exchange Rates", after paragraph 45, the following shall be inserted, namely:-

"46. In respect of accounting periods commencing on or after 7th December, 2006 and ending on or before 31st March, 2011, at the option of the enterprise (such option to be irrevocable and to be exercised retrospectively for such accounting period, from the date this transitional provision comes into force or the first date on which the concerned foreign currency monetary item is acquired, whichever is later and applied to all such foreign currency monetary items), exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, insofar as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset, and in other cases, can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long-term asset/liability but not beyond 31st March, 2011, by recognition as income or expense in each of such periods, with the exception of exchange differences dealt with in accordance with paragraph 15. For the purposes of exercise of this option, an asset or liability shall be designated as a long-term foreign currency monetary item, if the asset or liability is expressed in a foreign currency and has a term of 12 months or more at the date of origination of the asset or liability. Any difference pertaining to accounting periods which commenced on or after 7th December, 2006, previously recognized in the profit and loss account before the exercise of the option shall be reversed insofar as it relates to the acquisition of a depreciable capital asset by addition or deduction from the cost of the asset and in other cases by transfer to "Foreign Currency Monetary Item Translation Difference Account" in both cases, by debit or credit, as the case may be, to the general reserve. If the option stated in this paragraph is exercised, disclosure shall be made of the fact of such exercise of such option and of the amount remaining to be amortized in the financial statements of the period in which such option is exercised and in every subsequent period so long as any exchange difference remains unamortized."