# Attention C.A. Pcc & Ipcc Students

## Solved Ans. Acc. Pcc_Nov.10

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(No.1 Institute of Jharkhand)

C.A. CPT, PCC, IPCC & FINAL

Solved Ans Prepared by : C.A Arvind Kumar Jain and Team Members

(Disclaimer : Questions asked in the exam may have wrong/inadequate information and/or ambiguous language. In that case the answers provided by institute may differ from this Ideal Answers. If you find any errors, please email the same.)

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Roll No……………………………..

Total No. of Questions - 7 Total No. of Primed Pages - 8

Time Allowed - 3 Hours Maximum Marks - 100

Answers to questions arc lo be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi medium, his answers in Hindi will not be valued.

Q. No. **1** is compulsory

Answer any **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidate.

**Qn 1.** Answer the following : - **[5 x 4 = 20 Marks]**

**(a)** NDA Corporation is engaged in research, on a new process design for its product. It had incurred an expenditure of Rs. 530 lakhs on research upto 31st March, 09.

The development of the process began on 1st April, 09 and Development phase expenditure was Rs. 360 lakhs upto 31st March, 10 which meets assets recognition criteria.

From 1st April, 10 the company will implement the new process design which will result in after tax saving of Rs.80 lakhs per annum for the next five years.

The cost of capital of company is 10%.

Explain :

(1) Accounting treatment for research expenses.
(2) The cost of internally generated intangible assets as per AS 26.
(3) The amount of amortization of the assets. (The present value of annuity factor of Rs. 1 for 5 years @ 10% - 3.7908.)

**(b)** As on 31st March 2010, Strong Bank Ltd. had a balance of Rs. 27 crores in "rebate on bills discounted" account. The bank provides you the following further information.

(1) Owing the financial year ending 31st March 2010, Strong Bank Ltd. discounted bills of exchange of 4,000 crores charging interest @ 15% p. a. and the average period of discount being 146 days.
(2) Bills of Exchange of Rs. 600 crores were due for realization from the acceptors customers after 31st March 2010, the average period outstanding after 31st March 2010, being 73 days.

You are required to pass necessary Journal entries in the books of Strong Bank Ltd. for the above transactions.

**(c)** On 20th October, 2009, the godown and business premises of Aman Ltd. were affected by fire. From the salvaged accounting records, the following information is available.

| | **Rs.** |
|---|---|
| Stock of goods @ 10% lower than cost as on 31st March, 09 | 2,16,000 |
| Purchases less returns (1 - 4 - 09 to 20 - 10 - 09) | 2,80,000 |
| Sales less returns (1 - 4 - 09 to 20 – 10 - 09) | 6,20,000 |

**Additional Information :**

(1) Sales upto 20th Oct. 09 includes Rs. 80,000 for which goods had not been dispatched.
(2) Purchases upto 20th Oct. 09 did not include Rs. 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in Godown.
(3) Past records show the GP rate 25%.
(4) The value of goods salvaged from fire Rs. 31,000.
(5) Aman Lid. has insured their stock for Rs. 1,00,000.

Compute the amount of claim to be lodged to the insurance company.

**(d)** On 25th September, 2009, Planet Advertising Limited obtained advertisement rights for world cup hockey tournament to be held in Nov./Dec., 2009 for Rs. 520 lakhs.

They furnish the following information :

(1) The company obtained the advertisements for 70% of available time for Rs. 700 lakhs by 30th September, 09.
(2) For the balance time they got bookings in Oct. 09 for Rs. 240 lakhs.
(3) All the advertisers paid the full amount at the time of booking the advertisement.

(4) 40% of the advertisements appeared before the public in Nov. 09 and balance 60% appeared in the month of Dec. 09.

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2009, as per Accounting Standard - 9.

**Qn 2.** P, Q, R are three doctors who arc running a Polyclinic. Their capital on 31st March, 2009 was Rs. 1,00,000 each. They agreed to admit X, Y and Z as partner w.e.f. 1st April, 2009. The terms for sharing Profits & Losses were as follows :

(a) 70% of the visiting fee is to go to the specialist concerned.
(b) 50% of the chamber fees will be payable to the individual specialist.
(c) 40% of operation fees and fees for pathological reports, X-ray and ECG will accrue in favour of the doctor concerned.
(d) Balance of profit or loss is shared equally.
(e) All the partners are entitled for 6% interest on capital employed.

They further agreed that :

(i) X, Y and Z brought in Rs. 20,000 each as goodwill. Goodwill is shared by the existing partners equally.
(ii) X, Y and Z were brought in Rs. 50,000 each as Capital. Each of the original partners also contributed Rs. 50,000 by way of capital.

The receipts for the year after admission of new partners were :

| Name of doctors | Particulars | Visiting Fees (Rs.) | Chamber Fees (Rs.) | Fees for report, operation etc. (Rs.) |
|---|---|---|---|---|
| P | General Physician | 1,50,000 | 2,00,000 | |
| Q | Gynecologist | 25,000 | 1,75,000 | 1,00,000 |
| R | Cardiologist | | 1 ,00,000 | 75,000 |
| X | Child Specialist | 1,00,000 | 1,50,000 | |
| Y | Pathologist | | | 1,00,000 |
| Z | Radiologist | | 40,000 | 2,00,000 |
| | **Total** | 2,75,000 | 6,65,000 | 4,75,000 |

Expenses for the year were as follows :

| Particulars | Rs. |
|---|---|
| Medicines, injections and other consumables | 1,00,000 |
| Printing and Stationery | 5,000 |
| Telephone Expenses | 5,000 |
| Rent | 42,000 |
| Power and Light | 10,000 |
| Nurses Salary | 20,000 |
| Attendants wages | 20,000 |
| **Total** | **2,02,000** |
| **Depreciation** | |
| X-Ray Machines | 15,000 |
| ECG equipments | 5,000 |
| Furniture | 5,000 |
| Surgical equipments | 5,000 |
| **Total Depreciation** | **30,000** |

You are requested to :

(i) Pass necessary Journal entries on admission of partners.
(ii) Prepare the Profit and Loss Account of the Polyclinic for the year ended 31st March, 2010.
(iii) Prepare Capital Accounts of all the partners at the end of the Financial year 2009-10. Also show the distribution of profit among partners. [ 16 Marks ]

**Qn 3.** **Balance Sheets as on 31st March, 2010**

| Liabilities | Gee Ltd. Rs. | Pee Ltd. Rs. | Assets | Gee Ltd. Rs. | Pee Ltd. Rs. |
|---|---|---|---|---|---|
| Equity Share Capital (Rs.10 per share) | 25,00,000 | 15,00,000 | Buildings | 12,50,000 | 7,75,000 |
| | | | Plant and Machinery | 16,25,000 | 8,50,000 |
| 14% Preference Share | 11,00,000 | 8,50,000 | Furniture and Fixtures | 2,87,500 | 1,75,000 |
| Capital (Rs. 100 each) | - | - | Investments | 3,50,000 | 2,50,000 |
| General Reserve | 2,50,000 | 2,50,000 | Stock | 6,25,000 | 4,75,000 |
| Export Profit Reserve | 1,50,000 | 1,00,000 | Debtors | 4,00,000 | 4,60,000 |
| Investment Allowance Reserve | — | 50,000 | Bills Receivables | 50,000 | 55,000 |
| Profit and Loss Account | 3,75,000 | 1,25,000 | Cash at Bank | 3,62,500 | 2,60,000 |
| 15% Debentures (Rs. 100 each) | 2,50,000 | 1,75,000 | | | |
| Trade Creditors | 1,50,000 | 75,000 | | | |
| Bills Payables | 75,000 | 1,00,000 | | | |
| Other Current Liabilities | 1,00,000 | 75,000 | | | |
| | **49,50,000** | **33,00,000** | | **49,50,000** | **33,00,000** |

All the bills receivables of Pee Ltd. were having Gee Ltd's acceptances.

Gee Ltd. takes over Pee Ltd. on 1st April, 2010. The purchase consideration is discharged as follows :

(i) Issued 1,65,000 equity shares of Rs.10 each at par to the equity shareholders of Pee Ltd.
(ii) Issued 15% preference shares of Rs.100 each to discharge the preference shareholders of Pee Ltd, at 10% premium.
(iii) The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.
(iv) The Statutory Reserves of Pee Ltd. are to be maintained for two more years.
(v) Expenses of amalgamation amounting to Rs. 10,000 will be borne by Gee Ltd.

Show the opening Journal entries and the opening balance sheet of Gee Ltd. as at 1st April, 2010 after amalgamation, on the assumption that the amalgamation is in the nature of the merger.

**Qn 4. (a)** Sunlife General Insurance Company submits the following information for the year ended 31st March 2010:

| Particulars | Direct Business Rs. | Reinsurance Rs. |
|---|---|---|
| Premium received | 65,75,000 | 9,50,000 |
| Premium paid | | 4,75,000 |
| Claim paid during the year | 42,50,000 | 5,00,000 |
| Claim payable 1st April, 2009 | 6,25,000 | 87,000 |
| 31st March, 2010 | 7,18,000 | 60,000 |
| Claims received | — | 3,25,000 |
| Claims receivable 1st April, 2009 | - | 65,000 |
| 31st March, 2010 | - | 1,10,000 |
| Expenses of Management | 2,30,000 | |
| Commission | | |
| On insurance accepted | 1,50,000 | 11,000 |
| On insurance ceded | | 14,000 |

The following additional information is also available :

(1) Expenses of management includes Rs. 35,000 surveyor's fee and Rs. 45,000 Legal Expenses for settlement of claims.

(2) Reserve for unexpired risk is to be maintained @ 40%. The balance of reserve for unexpired risk as on 1-4-09 was Rs. 24,50,000.
You are required to prepare the Revenue Account for the year ended 31st March, 2010.

**(b)** KG Limited furnishes the following Balance Sheet as at 31st March, 2010.

| **Liabilities** | **Amount (Rs. in Lakhs)** | **Assets** | **Amount (Rs. in Lakhs)** |
|---|---|---|---|
| Equity share capital (fully paid up shares of Rs.10 each) | 1 ,200 | Machinery | 1,800 |
| Securities Premium | 175 | Furniture | 226 |
| General Reserve | 265 | Investments | 74 |
| Capital Redemption Reserve | 200 | Stock | 600 |
| Profit & Loss A/c | 170 | Debtors | 260 |
| 12% Debentures | 750 | Cash at bank | 740 |
| Sundry Creditors | 745 | | |
| Other current liabilities | 195 | | |
| | **3,700** | | **3,700** |

On 1st April 2010, the company announced the buy back of 25% of its equity shares @ Rs.15 per share. For this purpose, it sold all of its investments for Rs. 75 lakhs.

On 5th April 2010, the company achieved the target of buy back. On 30th April, 10 the company issued one fully paid up equity share of Rs. 10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to :
(1) Pass necessary Journal Entries for the above transactions.
(2) Prepare Balance Shed of KG Limited after bonus issue of the shares. **[ 8 marks ]**

**Qn. 5. (a)** On 1st April 2009 XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of Rs. 15 per share (face value Rs.10 per share). On 1st June 2009, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for Rs. 1,00,000 on cum right basis.

ABC Ltd. announced a bonus and right issue.

(1) Bonus was declared, at the rate of one equity share for every five shares held, on 1 July 2009.

(2) Right shares are to be issued to the existing shareholders on 1st Sept. 2009. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares.

(3) Dividend for the year ended 31 – 3 - 2009 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st Oct. 2009.
XY Ltd.
(i) Took up half the right issue.
(ii) Sold the remaining rights for Rs. 8 per share.
(iii) Sold half of its share holdings on 1st Jan. 2010 at Rs.16.50 per share. Brokerage being 1%.

You are required to prepare Investment a/c of XY Ltd. for the year ended 31st March 2010 assuming the shares are being valued at average cost. **[ 8 marks ]**

**(b)** Income and Expenditure Account for the year ended 31st March, 2010 of South Asia Club is given below :

| **Expenditure** | **Amount Rs.** | **Income** | **Amount Rs.** |
|---|---|---|---|
| To Salaries & wages | 47,500 | By Subscription | 75,000 |
| To Misc. Expenses | 5,000 | By Entrance fees | 2,500 |

| | | | |
|---|---|---|---|
| To Audit fees | 2,500 | By Contribution for Annual Day (After deducting expenses Rs. 7,500) | 7,500 |
| To Executive's Honorarium | 10,000 | | |
| To Sports day exp. | 5,000 | | |
| To Printing & Stationery | 4,500 | | |
| To Interest on Bank loan | 1,500 | | |
| To Depreciation on sports equipment | 3,000 | | |
| To Excess of income over expenditure | 6,000 | | |
| | **85,000** | | **85,000** |

Following additional information are also available :

| | | 31-3-2009 Rs. | 31-3-2010 Rs. |
|---|---|---|---|
| (1) | Subscription received in advance | 4,500 | 2,700 |
| (2) | Subscription outstanding | 6,000 | 7,500 |
| (3) | Salaries outstanding | 4,000 | 4,500 |
| (4) | Sports equipment (After deducting depreciation) | 26,000 | 27,000 |
| (5) | Cash in hand on 31-3-10 was Rs.16,000. | | |
| (6) | The club took a 5% loan of Rs.30,000 from a bank during 2008-09 for which interest was not paid in F.Y. 2009-10. | | |

Prepare Receipts and Payments A/c of South Asia Club for the year ending 31st March, 2010.

**6. (a)** From the following information of M/s Chennai Traders, you are required to prepare Hire Purchase Trading Account to ascertain the profit made during the Financial Year 2009-10. **[ 8 marks ]**

Chennai Traders sell goods on hire purchase basis at cost plus 25%. The following details are available :

| | | Rs. |
|---|---|---|
| (1) | Instalment not due on 31st March, 2009 | 4,50,000 |
| (2) | Instalment due and collected during the financial year 2009-10 | 12,00,000 |
| (3) | Instalment due but not collected during the financial year 2009-10 which includes Rs. 15,000 for which goods were repossessed | 75,000 |
| (4) | Instalment not due on 31st March, 2010 including Rs.30,000 for which goods were repossessed. | 5,55,000 |
| (5) | Instalment collected on repossessed stock | 22,500 |
| (6) | M/s Chennai Traders valued repossessed stock at 60% of original cost. | |

**(b)** A company had 16,000, 12% debentures of Rs.100 each outstanding as on 1st April, 2009, redeemable on 31st March, 2010. On that day sinking fund was Rs.14,98,000 represented by 2,000 own debentures purchased at the average price of Rs.99 and 9% stocks face value of Rs.13,20,000. The annual instalment was Rs.56,800.

On 31st March, 2010, the investments were realized at Rs. 98 and the debentures were redeemed. You are required to write up the following accounts for the year ending 31st March 2010.

(1) 12% debentures account

(2) Debenture redemption sinking fund account.

**Qn. 7.** Answer any **four** questions : **[ 4 x 4 = 16 ]**

**(a)** "While calculating diluted earning per share, effect is given lo all dilutive potential equity shares that were outstanding during that period." Explain. Also calculate the diluted earnings per share from the following information :

| | | |
|---|---|---|
| Net profit for the current year | Rs. | 85,50,000 |
| No. of equity shares outstanding | | 20,00,000 |
| No. of 8% convertible debentures of Rs. 100 each | | 1,00,000 |
| Each debenture is convertible into 10 equity shares | | |
| Interest expenses for the current year | Rs. | 6,00,000 |
| Tax relating to interest expenses | | 30% |

**(b)** Gupta Traders keep their Ledger on the self balancing system. They provide you the following information for the year ended 31st March, 2010 :

| | Rs. |
|---|---|
| Debtors balance on 1st April, 2009 | 1,37,250 |
| Credit sales | 68,100 |
| Returns inward | 1,200 |
| Returns outward | 1,800 |
| Cash received from customers | 76,800 |
| Discount received | 2,010 |
| Acceptances received | 25,500 |
| Bills receivables dishonoured | 3,600 |
| Bad debts written off | 7,500 |

You are required to prepare General Ledger Adjustment A/c. in Sales Ledger of Gupta. Traders.

**(c)** What is employee stock option plan ? Explain the importance of such plans in the modern time.

**(d)** A Ltd. purchased a machinery for Rs. 40 lakhs. (Useful life 4 years and residual value Rs. 8 lakhs) Government grant received is Rs. 16 lakhs.

Due to non-compliance of certain condition, the grant becomes refundable in 3rd year to the extent of ? 12 lakhs.

Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets, if:

(1) the grant is credited to fixed assets.
(2) the grant is credited to Deferred Grant A/c.

"Recently a growing trend has developed for outsourcing the accounting function." Explain the advantages and disadvantages of outsourcing the accounting functions.

## ANSWER

**Ans. 1 (a)**

(i) As per AS 26, research expenses be expensed in the year in which it has incurred.

(ii) The Development expenses can be capitalized from the date the internally generated assets (new process design) meet the recognition criteria on and from 1.4.2009. Therefore cost of Rs.360 lacs is to be capitalized as an intangible asset as per As 26.

(iii) Amount of amortization = carrying amount – Recoverable amount
(Impairment loss) = 360 Lacs – 303.264 Lacs
**WN 1.**
= 56.736 Lacs

**WN 1.** Recoverable Amount = 80 Lacs x 3.7908 = 303.264 Lacs

**Ans. 1 (b)** Journal Entries in the books of Strong Bank Ltd. **(Rs. Crores)**

| Date | Particulars | L F | Amount | Amount |
|---|---|---|---|---|
| 1.4.2009 | Rebate on Bill discounted --------------------- Dr.<br>To Discount on Bills a/c<br>(Being opening balance in Rebate on bill discounted a/c transferred to discount on Bills a/c) | | 27.00 | <br>27.00 |
| 2009-2010 | Bills Purchased & Discounted a/c ---------- Dr.<br>To Discount on Bills a/c<br>(4000 x 15% x 146/365)<br>To Clients a/c<br>(Being the discounting of bills of exchange during the year) | | 4000.00 | <br>240.00<br>3760.00 |
| 31.3.2010 | Discount on Bill a/c ------------------- Dr.<br>To Rebate on Bill discounted a/c<br>(Being provision for the year for unexpired portion has been made) | | 18.00 | <br>18.00 |
| 31.3.2010 | Discount on Bill a/c ---------------- Dr.<br>To P & L a/c<br>(Balance on discount on bills a/c transferred to P & L a/c) | | 249.00 | <br>249.00 |

**Imp. Note : -** In the question, in the first line date should be 1.4.09 instead of 31.3.2010

**Ans. 1 (c)**

**AMAN LTD.**

Memorandum Trading a/c for the period 1.4.2009 to 20.10.2009

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Opening stock $(21600 \times \frac{100}{90})$ | 240000 | By Sales less return 620000<br>Less : Goods not dispatched 20000 | 600000 |
| To Purchases less return 280000<br>Add : Invoices not yet received 40000 | 320000 | By Closing Stock (Bal. figure) | 110000 |
| To Gross profit (600000 x 25%) | 150000 | | |
| | 710000 | | 710000 |

Loss of stock = Closing stock lost by fire - Salvage value
= 110000 – 31000 = 79000/-

Since policy amount (Rs.100000) is less than value of closing stock (Rs.110000) therefore average clause will apply.

Insurance claim = Policy amount x Loss of Stock / -----------------------------------

Value of Closing Stock

$$= \frac{100000 \times 79000}{110000} = 71818 /-$$

**Ans. 1 (d)** As per para 12 of AS-9, in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever related the revenue to the work accomplished. Such performance should be regarded as being achieved when no significant uncertainty exists regarding the amount that will be derived from rendering the service. Further appendix to AS-9 states that revenue from advertising should be recognized when the service is completed. In this case the service as regards advertisement is deemed to be completed when the related advertisement appears before the public.

As the 40% of the advertisement appears in Nov. 2009 and 60% in Dec. 2009, therefore the revenue with 420 lacs [(700 + 240) – (520)], should be apportioned in 40% and 60% ratio which will be 168 lacs in Nov.09 and 252 lacs in Dec.09.

**Ans. 2.** (i) Journal entries in the books of firm

| Date | Particulars | L F | Amount | Amount |
|---|---|---|---|---|
| 1.4.2009 | Cash a/c --------------------------- Dr.<br>To X capital a/c<br>To Y capital a/c<br>To Z capital a/c<br>To P capital a/c<br>To Q capital a/c<br>To R capital a/c<br>(Being all the existing partners namely P, Q & R as well as new partners namely X, Y & Z contributed Rs.50000 each on admission) | | 300000 | <br>50000<br>50000<br>50000<br>50000<br>50000<br>50000 |
| 1.4.2009 | Bank a/c --------------------------- Dr.<br>To Goodwill<br>(Being new partners paid for goodwill @ 20000/- each) | | 60000 | <br>60000 |
| 1.4.2009 | Goodwill a/c --------------------- Dr.<br>To P Capital<br>To Q Capital<br>To R Captial<br>(Being Goodwill is shared by the existing partners equally) | | 60000 | <br>20000<br>20000<br>20000 |

**Profit & Loss account of the polyclinic for the year ended on 31.3.2010**

| Expenditure | Amount | Income | Amount |
|---|---|---|---|
| To Medicines, injections & other consumables | 100000 | By Common Income (Gross) **W.N. (2)** | 715000 |
| To Printing & stationery | 5000 | | |
| To Telephone expenses | 5000 | | |
| To Rent | 42000 | | |
| To Power & Light | 10000 | | |
| To Nurses Salary | 20000 | | |
| To Attendants wages | 20000 | | |
| To <u>Depreciation</u> | | | |
| X – Ray Machines | 15000 | | |
| ECG Equipments | 5000 | | |
| Furniture | 5000 | | |
| Surgical equipments | 5000 | | |
| To <u>Interest on Capital @ 6%</u> | | | |
| P 170000 x 6% 10200 | | | |
| Q 170000 x 6% 10200 | | | |
| R 170000 x 6% 10200 | | | |
| X 50000 x 6% 3000 | | | |
| Y 50000 x 6% 3000 | | | |

| | | | |
|---|---|---|---|
| Z 50000 x 6% 3000 | 39600 | | |
| To Share of Profit | | | |
| P 73900 | | | |
| Q 73900 | | | |
| R 73900 | | | |
| X 73900 | | | D |
| Y 73900 | | | |
| Z 73900 | 443400 | | |
| | 715000 | | 715000 |

**Capital a/c of partners of M/S Polyclinic as on 31.3.2009**

| | | P | Q | R | X | Y | Z |
|---|---|---|---|---|---|---|---|
| 31.3.10 | To Balance c/d | 459100 | 399100 | 334100 | 271900 | 166900 | 226900 |
| | | 459100 | 399100 | 334100 | 271900 | 166900 | 226900 |

| | | P | Q | R | X | Y | Z |
|---|---|---|---|---|---|---|---|
| 1.4.09 | By balance b/d | 100000 | 100000 | 100000 | - | - | - |
| 1.4.09 | By cash a/c | 50000 | 50000 | 50000 | 50000 | 50000 | 50000 |
| 1.4.09 | By Goodwill a/c | 20000 | 20000 | 20000 | -- | -- | -- |
| 31.3.10 | By Share in | | | | | | |
| | Visiting fees | 105000 | 17500 | -- | 70000 | -- | -- |
| | Chamber fees | 100000 | 87500 | 50000 | 75000 | -- | 20000 |
| | Other fees | -- | 40000 | 30000 | -- | 40000 | 80000 |
| | Common income | 73900 | 73900 | 73900 | 73900 | 73900 | 73900 |
| 31.3.10 | Interest on Capital | 10200 | 10200 | 10200 | 3000 | 3000 | 3000 |
| | | | | | | | |

**W.N. (1)** Statement showing distribution of income between all partners as per agreement

| Name of partner | Share in visiting fees (70%) | Share in Chamber Fees (50%) | Share in fees for report, operation etc (40%) |
|---|---|---|---|
| P | 105000 | 100000 | -- |
| Q | 17500 | 87500 | 40000 |
| R | -- | 50000 | 30000 |
| X | 70000 | 75000 | -- |
| Y | -- | -- | 40000 |
| Z | -- | 20000 | 80000 |
| | 192500 | 332500 | 190000 |

**W.N. (2)** Calculation of common income (Gross)

| | |
|---|---|
| Gross Fees | |
| Visiting Fees | 275000 |
| Chamber Fees | 665000 |
| Fees for reports | 475000 |
| | 1415000 |
| Less : Share of concerned doctor | |
| Visiting fees | 192500 |
| Chamber fees | 332500 |
| Fees for reports | 190000 |
| Common Income (Gross) | 715000 |

**Ans. 3** **Journal Entries in the Books of Gee Ltd.** **(Rs.)**

| Date | Particulars | L. F | Amount | Amount |
|---|---|---|---|---|
| 1.4.2010 | Building a/c -------------------------- Dr. | | 775000 | |
| | Plant & Machinery ------------------- Dr. | | 850000 | |
| | Furniture & Fittings ------------------- Dr. | | 175000 | |
| | Investments ----------------------- Dr. | | 250000 | |

| | | | | |
|---|---|---|---|---|
| | Stock -------------------------- Dr.<br>Debtors ------------------------ Dr.<br>Bills Receivables ------------------- Dr.<br>Cash at Bank ------------------- Dr.<br>To 15% Debentures<br>To Trade Creditors<br>To Bills payables<br>To Other current liabilities<br>To Liquidator of Pee Ltd. **W.N. (1)**<br>To Capital Reserve **W.N. (2)**<br>(Being various assets & liabilities of Pee Ltd. taken over, purchase consideration recorded and profit transferred to capital reserve a/c) | | 475000<br>460000<br>55000<br>260000 | <br><br><br><br>175000<br>75000<br>100000<br>75000<br>2585000<br>290000 |
| 1.4.2010 | Liquidator of Pee Ltd. ------------------- Dr.<br>To Equity Share Capital a/c<br>To 15% Preference Share Capital<br>(Being purchase consideration discharged) | | 2585000 | <br>1650000<br>935000 |
| 1.4.2010 | 15% Debentures of Pee Ltd. ----------- Dr.<br>To 15% Debentures (New)<br>(Being equivalent number of 15% Debentures issued in exchange of old one) | | 175000 | <br>175000 |
| 1.4.2010 | Amalgamation Adj. a/c -------------- Dr.<br>To Export Profit Reserve<br>To Investment Allowance Reserve<br>(Being statutory reserves created through amalgamation adjustment a/c) | | 150000 | <br>100000<br>50000 |
| 1.4.2010 | Bills Payable a/c ---------------------- Dr.<br>To Bills Receivables<br>(Being cancellation of Inter Company Owings) | | 55000 | <br>55000 |
| 1.4.2010 | Capital Reserve a/c ------------------ Dr.<br>To Bank a/c<br>(Being Amalgamation Expenses of Pee Ltd. paid) | | 10000 | <br>10000 |

**Balance sheet of Gee Ltd. after amalgamation as on 1.4.2010**

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Equity share capital (Rs. 10 each) | 4150000 | **FIXED ASSETS** | |
| 14% Preference share capital (Rs.100 each) | 1100000 | Buildings | 2025000 |
| 15% Preference Share Capital (Rs. 100 each) | 935000 | Plant & Machinery | 2475000 |
| **RESERVE & SURPLUS** | | Furniture & Fittings | 462500 |
| General Reserve | 250000 | | |
| Export profit reserve | 250000 | Investments | 600000 |
| Investment allowance reserve | 50000 | **CURRENT ASSETS, LOANS & ADVANCES** | |
| P & L a/c | 375000 | | |
| Capital reserve | 280000 | Stock | 1100000 |
| **UNSECURED LOAN** | | Debtors | 860000 |
| 15% Debentures (Rs.100 each) | 425000 | Bills receivables | 50000 |
| **CURRENT LIABILITIES & PROVISIONS** | | Cash at Bank | 612500 |
| Trade Creditors | 225000 | Amalgamation Adj. a/c | 150000 |
| Bills Payables | 120000 | | |
| Other Current Liabilities | 175000 | | |
| | **8335000** | | **8335000** |

**W.N. (1) <u>Calculation of Purchase Consideration</u>**

(a) <u>Equity shareholders of Pee Ltd. will get</u> — Rs.

165000 Equity shares of Rs.10 each at par — 1650000

(b) <u>Preference shareholders of P Ltd. will get</u>

15% Preference share of Rs.100 each — 935000

[9350 share of Rs.100 each] — -----------

| | | |
|---|---|---|
| P.C. = | | 2585000 |

**W.N. (2) Calculation of Goodwill / Capital Reserve**

| | | |
|---|---|---|
| Total of Assets side of Pee Ltd. | | 33,00,000 |
| Less : Outside Liabilities | | |
| 15% Debentures | 175000 | |
| Trade Creditors | 75000 | |
| Bills Payables | 100000 | |
| Other Current liabilities | 75000 | 425000 |
| Net Assets taken over | | 2875000 |
| Less : Purchase Consideration | | 2585000 |
| **Capital Reserve** | | **290000** |

**Ans. 4(a) Revenue Account of Sunlife general Insurance company for the year ended on 31.03.2010**

| Particular | Schedule | Current Year 2009-10 | Previous Year 2008-09 |
|---|---|---|---|
| Premium Net | 1 | 70,50,000 | |
| Income from Investments | | NIL | |
| Other Income | | NIL | |
| Changes in Reserve for unexpired risk | | (3,70,000) | |
| Total (A) | | 66,80,000 | |
| Claims incurred | 2 | 45,26,000 | |
| Commission | 3 | 1,47,000 | |
| Other Expenses | | NIL | |
| Total (B) | | 46,73,000 | |
| Opening Expenses | 4 | 1,50,000 | |
| Interim Bonuses paid | | NIL | |
| Total (c) | | 1,50,000 | |
| Surplus [A – ( B-C) ] | | 18,57,000 | |
| Appropriations | | NIL | |

**Schedule 1 – Premium (Net)**

| | Rs. |
|---|---|
| Received on Direct business | 6575000 |
| Add : Received on Reinsurance | 950000 |
| Less : Paid on Reinsurance | 475000 |
| Total | 7050000 |

**Schedule 2 - Claims incurred**

| | |
|---|---|
| Claims paid on direct business | 4250000 |
| Add : Claims paid on reinsurance | 500000 |
| Add : Claims payable as on 31.3.2010 - Direct | 718000 |
| Reinsurance | 60000 |
| Less : Claims payable as on 1.4.2009 - Direct | 625000 |
| - Reinsurance | 87000 |
| Less : Claims received | 325000 |
| Less : Claims receivable closing | 110000 |
| Add : Claims receivable opening | 65000 |
| Add : Expenses of management related to claims | |
| Surveyors fees | 35000 |
| Legal expenses | 45000 |
| | 4526000 |

**Schedule 3 – Commission**

| | |
|---|---|
| On insurance accepted - Direct | 150000 |
| - Reinsurance | 11000 |
| Less : Commission on insurance ceded | 14000 |

| | |
|---|---|
| | 147000 |

**Schedule 4 – Operating Expenses**

| | |
|---|---|
| Expenses of Management (230000 – 35000 – 45000) | 150000<br>150000 |

**Changes in provision for unexpired risk**

| | |
|---|---|
| Closing reserve for unexpired risk (40% of Rs. 70,50,000) | 28,20,000 |
| Less: Opening reserve for unexpired risk | 24,50,000 |
| | 3,70,000 |

**Ans. 4. (B)** Journal Entries in the books of KG Ltd. (Rs. Lacs)

| Date | Particulars | LF | Amount | Amount |
|---|---|---|---|---|
| 1.04.2010 | Bank A/c ……………………………….Dr<br>To Investments<br>To P/ L A/c<br>(Being sale investments, profit there on credited to P/L A/c ) | | 75.00 | <br>74.00<br>1.00 |
| 5.04.2010 | Equity Share Capital A/c ………….Dr<br>Securities Premium A/c ……………Dr<br>To Equity Shareholders A/c<br>(Being equity shares bought back, share capital cancelled excess paid on buy back provided from security premium A/c) | | 300.00<br>150.00 | <br><br>450.00 |
| 5.04.2010 | Equity Shareholders A/c ……………………Dr.<br>To Bank A/c<br>Being payment made to equity share holders) | | 450.00 | <br>450.00 |
| 5.04.2010 | General reserve ………………………………Dr.<br>P/L A/c …………………………………………Dr.<br>To Capital Redemption Reserve<br>(Being amount transferred to CRR a/c towards face value of equity shares bought back) | | 265.00<br>35.00 | <br><br>300.00 |
| 30.04.10 | CRR A/c …………………………………………Dr.<br>To Bonus to Share holders A/c<br>(Being amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:4 ride general Body's resolution dated ….)[900 x1/4] | | 225.00 | <br>225.00 |
| 30.04.2010 | Bonus to Shareholders ……………………Dr.<br>To Equity Share capital A/c<br>(Being amount of bonus issue transferred to equity share capital a/c) | | 225.00 | <br>225.00 |

**Balance Sheet of KG Ltd. As on 30.04.10 (Rs. Lacs)**

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Equity share capital<br>(Fully paid up shares of Rs. 10 each) | 1125 | Machinery<br>Furniture<br>Stock | 1800<br>226<br>600 |
| Security Premium A/c | 25 | Debtors | 260 |
| Capital Redemption Reserve | 275 | Cash at Bank | 365 |
| P/L A/c | 136 | | |
| 12% Debentures | 750 | | |
| Sundry Creditors | 745 | | |
| Other current liabilities | 195 | | |
| | 3251 | | 3251 |
| | | | |

**Ans. 5. (A) Investment account of XY Ltd. For the year ended 31.03. 2010**

| Particular | No of share | Income | Amount Rs. | Particular | No of Shares | Income | Amount Rs. |
|---|---|---|---|---|---|---|---|
| 1.04.09 To Balance b/d | 15000 | ---- | 225000 | 1.09.09 By Bank A/c | --- | 16000 (2000x8) | ----- |
| 1.06.09 To Bank A/c | 5,000 | ---- | 100000 | 31.10.09 By Bank A/c | --- | 30000 (15000x2) | 10000 (5000x2) |
| 1.07.09 To Bonus issue | 4,000 | ---- | --- | | | | |
| 1.09.09 To Bank A/c | 2,000 | ---- | 24,000 | 1.01.10 By Bank A/c | 13000 | --- | 261360 |
| 31.03.10 To P/L A/c | --- | 46000 (b/f) | --- | 31.3.10 ByBalance c/d | 13000 | --- | 169500 (13000 x 13.038461) |
| 31.03.10 To P/L A/c | --- | --- | 91860 (b/f) | | | | |
| | 26000 | 46000 | 440860 | | 26000 | 46000 | 440860 |

$$\text{Average Cost per share} = \frac{225000 + 100000 + 24000 - 10000}{15000 + 5000 + 4000 + 2000} = \frac{339000}{26000}$$

= Rs. 13.038461 per share

**Ans.(5) (B) Receipt & Payment account of south Asia Club for the year ended on 31.03.2010**

| Receipts | Amount | Payment | Amount |
|---|---|---|---|
| To Balance b/d (balancing fig.) | 12300 | By Salaries & wages 47500 | |
| '' Subscription 75,000 | | Less: Closing O/S 4500 | |
| Less: Closing o/s 7,500 | | Add: Opening O/S 4000 | 47000 |
| Add: Opening O/S 6,000 | | By Misc Expenses | 5,000 |
| Add: Closing advance 2,700 | | By Audit Fees | 2500 |
| Less: Opening advance 4,500 | 71700 | By Executives Honorarium | 10000 |
| To Entrance Fees | 2500 | By Sports day Expenses | 5000 |
| To Annual Day receipts | 15000 | By Printing & Stationary | 4500 |
| | | By Annual day Exp. | 7500 |
| | | By Sports equipments purchased (27000 + 3000 + 26000) | 4000 |
| | | By Balance C/D | 16000 |
| | 101500 | | 101500 |

**Ans 6. (a)**

**In the books of M/S Chennai Ltd.**
**Hire purchase Trading A/c**

| Particular | Amount | Particular | Amount |
|---|---|---|---|
| To Balance b/d | | By Cash A/c | 1,20,000 |
| Installment not due (450000 x 100/125) | 3,60,000 | By Goods repossessed A/c (WN (1) | 32,400 |
| Instalment due but not collected | NIL | | |
| | | By Balance c/d | |
| To Cost of goods sold on Hire Purchase **WN 2** | 11,04,000 | Instalment not due (525000 x 100 /125) | 42,000 |
| | | Instalment due but not received | 60,000 |
| To P/L A/c | 2,48,400 | | |
| | 17,12,400 | | 17,12,400 |

**WN. (1) Valuation of goods repossessed**

| | |
|---|---|
| a) Installment due | Rs. |
| and received on goods repossessed | 22500 |
| but not received goods repossessed | 15000 |
| b) Instalment not due on goods repossessed | 30000 |
| HP price of goods repossessed | 67500 |
| Cost of goods repossessed = 67500 x 100/125 | 54000<br>32400 |

| | |
|---|---|
| Valuation of goods repossessed (60% of cost ) 54000x60% | |

**WN.2. Calculation of cost of goods sold on Hire Purchase**

| | | |
|---|---|---|
| b) Installment due | | Rs. |
| and received from paying customers | | 1177500 |
| and received on goods repossessed | | 22500 |
| | | 12,00,000 |
| Add: due but not received from paying customers | | 60000 |
| Add: due but not received on goods repossessed | | 15000 |
| Total Instalment due | | 1275000 |
| Add: Closing instalment not due | Rs. | |
| Paying customers | 525000 | |
| On goods repossessed | 30000 | 555000 |
| Less: Opening Instalment not due | | 450000 |
| HP price of goods sold on HP = | | 13,80,000 |

Cost of goods sold on H.P = 1380000x100/125= Rs. 11,04,000

**Ans.6. (b)** **12% Debenture A/c**

| Particular | | Amount | Particular | | Amount |
|---|---|---|---|---|---|
| 31.03.10 | To own Debenture a/c | 2,00,000 | 1.04.09 | By Balance B/d | 16,00,000 |
| 31.03.10 | To Bank A/c | 14,00,000 | | | |
| | | 16,00,000 | | | 16,00,000 |

**Debenture redemption sinking fund A/c**

| Particular | | Amount | Particular | | Amount |
|---|---|---|---|---|---|
| 31.03.10 | To 9% Stock A/c | 6,400 | 1.04.09 | By Balance B/d | 1498000 |
| 31.03.10 | To General Reserve A/c | 1600000 | 31.03.10 | " P/L A/c (Annual Appropriation) | 56800 |
| 31.03.10 | To Capital Reserve A/c | 91200 (bal. fig) | | By Intt on 9% Stock A/c | 118800 |
| | | | 31.03.10 | By Intt. On own debenture a/c | 24000 |
| | | 1697600 | | | 1697600 |

**WN.1** **Own Debenture A/c**

| Date | Particular | Face Value | Intt. | Cost | Date | Particular | Face Value | Intt. | Cost |
|---|---|---|---|---|---|---|---|---|---|
| 1.04.10 | To Balance b/d | 2,00,000 | --- | 198000 (2000x99) | 31.03.10 | By Debenture Intt A/c | -- | 24000 (200000x12%) | --- |
| 31.03.10 | " Capital Reserve | --- | --- | 2,000 | 31.03.10 | By 12% Debenture | 200000 | ---- | 200000 |
| 31.03.10 | " Debenture Redemption SF a/c | --- | 24000 | --- | | | | | |
| | | 200000 | 24000 | 200000 | | | 200000 | 24000 | 200000 |

**W.N. 2** **9% Stock A/c**

| Date | Particular | Face Value | Intt. | Cost | Date | Particular | Face Value | Intt. | Cost |
|---|---|---|---|---|---|---|---|---|---|
| 1.04.10 | To Balance b/d | 1320000 | --- | 1300000 | 31.03.10 | By Bank A/c | -- | 118800 (1320000x 9%) | --- |
| 31.03.10 | To Debenture redemption SF A/c | --- | 118800 (bf) | ---- | 31.03.10 | By Bank A/c | 1320000 | ---- | 1293600 (13200x98) |
| | | | | | 31.03.10 | By Debenture redemption SF A/c | ---- | ---- | 6400 |
| | | 13,20,000 | 118800 | 1300000 | | | 1320000 | 118800 | 1300000 |

**Note 1:** It is assumed that interest due date on 12% debenture and 9% stock a/c is annual i.e 31.03.2010
**Note 2:** it is assumed that debenture redemption SF is cumulative .

**Ans. 7(a)** Potential equity shares are diluted if their conversion into equity shares reduces the earning per share. If their conversion does not decrease the EPS, rather it increases the EPS, then the potential equity shares are not to be considered dilutive.

$$\text{Diluted earning per share} = \frac{\text{Net profit for the current year + Interest net of tax}}{\text{No. of equity shares outstanding + Potential equity shares on conversion of debentures}}$$

$$= \frac{85{,}50{,}000 + 600000\,(1 - .30)}{20{,}00{,}000 + 10{,}00{,}000} = \frac{89{,}70{,}000}{30{,}00{,}000} = 2.99\text{ /- per share}$$

$$\text{Basic earnings per share} = \frac{\text{Net profit for the current year}}{\text{No. of shares o/s}}$$

$$= \frac{85{,}50{,}000}{20{,}00{,}000} = 4.275\text{ /- per share.}$$

Since earning per share is reduced on conversion of debentures into shares, the above mentioned EPS of 2.99/- per share is considered to be dilutive.

**Ans. 7 (b) In the sales ledger of Gupta Traders**

**General Ledger Adjustment a/c**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Debtors Ledger Adj. | | By Balance b/d | 137250 |
| Return inward | 1200 | " Debtors Ledger Adj. a/c | |
| Cash received | 76800 | Credit Sales | 68100 |
| Bills Receivable received | 25500 | B/R dishonored | 3600 |
| Bad debts | 7500 | | |
| To Balance c/d (balancing figure) | 97950 | | |
| | 208950 | | 208950 |

**Ans. 7(c) Definition :** Some employers use share based payments as a pact of remuneration package for their employees. Such payments are generally take the terms of employee stock option plans (ESOPs). **Employee ownership** occurs when a business is owned in whole or in part by its employees. Employees are often given a share of the business after a certain length of employment or they can buy shares at any time. They also often have boards of directors elected directly by the employees. Some corporations make formal arrangements for employee participation, called **employee stock ownership plans** (**ESOPs**).
As per 'GUIDANCE NOTE ON ACCOUNTING FOR EMPLOYEE SHARE BASED PAYMENTS' issued by ICAI, there are two methods of accounting for employee share based payments i.e. fair value method and the instrinsic value method.

**Importance of ESOP is the moderns time :** Importance of ESOP's are increasing to a great extent day by day. The ESOP will create a stock-based, incentive-oriented retirement program for the employees. Employees will share effectively in the equity growth and profits of the business, which will often lead to increased productivity, dedication, sense of ownership and morale. In some cases, the formation of the ESOP can have a positive impact on cash flow.

**Some Benefits of ESOPS :**
1. If the selling shareholder holds the above shares until his or her death, the deferral of income taxes may be permanent.
2. Selling shareholders can continue to work for the corporation.
3. Depending on the ESOP's percentage ownership of the company, the selling shareholders can still maintain control of the company.
4. The ESOP may establish the vehicle for future sales of additional stock of the company.

**Ans. 7 (d)** Journal entry in the books of Ltd.
(i) If grant is credited to fixed assets at the time of receipt -

Fixed assets at the time of receipt –

Fixed Assets ------------------------ Dr. Rs. 12 lacs

To Bank a/c Rs. 12 lacs

. (The balance of fixed asset a/c after 2 years depreciation was Rs.16 lacs and now it will become Rs.28 lacs assuming same residual value and remaining life of 2 years, Rs.10 lacs depreciation will be charged in remaining 2 years.)

(ii) If the grant is credited to deferred grant or income at the time of receipt

Deferred grant a/c -------------------- Dr. Rs. 8 lacs

P & L a/c -------------------- Dr. Rs. 4 lacs

To Bank a/c Rs. 12 lacs

(Deferred grant a/c will become NIL. The fixed assets will continue to be depreciated at Rs.8 per annum.)

**Valuation of fixed Assets**

(i) 28 Lacs

(ii) 24 Lacs

**Ans. 7 (e) ADVANTAGES OF OUTSOURCING THE ACCOUNTING FUNCTIONS**

The advantages of outsourcing the accounting functions are the following:

1. The organisation that outsources is able to save time to concentrate on the core area of business activity.
2. The organisation is able to utilise the expertise of the third party in undertaking the accounting work.
3. Storage and maintenance of the data is in the hand of professional people.
4. The organisation is not bothered about people leaving the organisation in key accounting positions.
5. The proposition often proves to be economically more sensible.

**DISADVANTAGES OF OUTSOURCING THE ACCOUNTING FUNCTIONS**

The disadvantages of outsourcing are as follows:

1. The data of the organisation is handed over to a third party: This raises two issues, one of security and second of confidentiality. There have been instances of information leaking out of the third party data centres.
2. Inadequate services provided :The third party is unable to meet the standards desirable.
3. The cost may ultimately be higher than initially envisaged.
4. Delay in obtaining services: The third party service providers are catering to number of clients thereby processing as per priority basis.