

PAPER – 1 : ADVANCED ACCOUNTING

QUESTIONS

Preparation of Financial Statement of Companies

1. (a) A company can declare and pay dividend out of profit available for distribution. Interpret the distributable profit.

A company has earned profit before depreciation ₹ 80 lakhs, depreciation as per books is ₹ 26 lakhs and depreciation as per section 205 of the Companies Act works out to ₹ 62 lakhs. Compute the maximum amount that can be paid as dividend for the relevant accounting year.

- (b) A joint stock company, earning adequate profits, has four part-time directors and a whole time director. What is the maximum managerial remuneration it can pay to its (i) Part-time directors taken together and (ii) to wholetime director? What will be your answer if the company had only part-time directors and no whole-time director?

Cash Flow Statement

- (c) From the following summarized cash book of Z Ltd., prepare Cash Flow Statement for the year ended 31st March, 2011 in accordance with AS 3 (Revised), using the direct method:

		₹ in lakhs
Cash and bank balances on 1 st April, 2010		10
Receipts from customers		560
Issue of equity shares		60
Sale of land and building		<u>20</u>
		650
Payments to suppliers	400	
Purchase of machinery	55	
Wages and salaries paid	20	
Payments for overhead expenses	40	
Taxation	35	
Dividend	10	
Repayment of Bank Loan	<u>60</u>	<u>(620)</u>
Cash and bank balances on 31 st March, 2011		<u>30</u>

The company does not have any cash equivalents.

Buy-back of Shares

2. (a) X Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

Employees Stock Option Plan

- (b) Brite Ltd. has its share capital divided into shares of ₹ 10 each. On 1st April, 2010, it granted 25,000 employees stock options at ₹ 50 when the market price was ₹ 140 per share. The options were to be exercised between 1st January, 2011 and 28th February, 2011. The employees exercised options for 24,000 shares only; the remaining options lapsed. The company closes its books of account on 31st March every year.

You are required to show journal entries for all the above-mentioned transactions.

Internal Reconstruction of a company

3. (a) The Balance Sheet of Weak Ltd. as on 31st March, 2011 was as under:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Share Capital:		Goodwill	2,00,000
20,000 Equity Shares of ₹ 100 each fully paid	20,00,000	Plant & Machinery	18,00,000
		Inventories	3,00,000
10,000, 7% Preference Shares of ₹ 100 each	10,00,000	Debtors	7,50,000
Creditors	7,00,000	Cash & Bank Balance	1,50,000
Rich Bank overdraft	<u>3,00,000</u>	Profit & Loss A/c	7,00,000
	<u>40,00,000</u>	Preliminary Expenses	<u>1,00,000</u>
			<u>40,00,000</u>

The following information is furnished to you:

- (1) Preference dividend remains in arrear for 2 years.
- (2) Due to adverse performance, the company decided an Internal Restructuring by writing off all losses, intangibles & implementing the following scheme:
 - (i) Creditors agree to forego 50% of their claims.
 - (ii) Preference shareholders waive their right to arrears of dividend and agree to reduce their capital by 20% by reducing the nominal value of their shares in consideration for an yield of 9% on their shares post

restructuring, provided the sacrifice of equity shareholders is at least 51%.

- (iii) Rich Bank agrees to convert the overdraft into a term loan to the extent of ₹ 2,25,000 and balance to be continued as overdraft.
- (iv) Plant & Machinery to be devalued by ₹ 3,00,000.
- (v) Debtors to the extent of ₹ 3,50,000 are not recoverable.
- (vi) Equity shareholders agree to accept shares at lesser nominal value as may be required.

You are required to calculate/prepare:

1. Total sacrifice by the shareholders of Weak Ltd.
2. Share of loss by each class of shareholders.
3. New share capital post the restructuring scheme.
4. Working capital of the restructured entity.
5. A Balance Sheet post restructuring.

Liquidation of a Company

- (b) The liquidation of a joint stock company commenced on 1st April, 2011. Certain creditors could not receive payment out of realization of assets and the contributions from A list contributories. The following are the details of certain transfers which took place:

Shareholder's name	No. of shares transferred	Date of ceasing to be a member	Creditors remaining unpaid and outstanding on the date of each transfer ₹
A	2,000	2 nd March, 2010	5,000
B	1,500	3 rd May, 2010	3,300
C	1,000	1 st Sept., 2010	4,300
D	500	23 rd Nov., 2010	4,600
E	300	1 st Feb., 2011	6,000

All the shares were of the face value of ₹ 10 each, ₹ 8 per share paid up.

Show the amount to be realized from the various persons listed above, ignoring expenses and remuneration to liquidator.

Financial Statements of Banking Companies

4. The following figures have been taken from the books of National Bank Limited as on 31st March, 2011:

	₹
Paid up share capital	20,00,000
Interest and discount received	74,11,000
Interest paid on deposits	40,74,000
Salaries and allowances	4,00,000
Rent and taxes paid	1,80,000
Directors' fees and allowances	60,000
Statutory reserve fund	16,00,000
Postages and telegrams	1,20,000
Rent received	1,30,000
Commission, exchange and brokerage	3,80,000
Profit on sale of investments	4,00,000
Depreciation on bank's property	60,000
Law charges	80,000
Auditors' fees	10,000

The following additional information is given to you :

- One customer to whom a sum of ₹ 20 lakhs was advanced has become insolvent and it is expected that only 50% of the amount will be recovered from his estate.
- Auditors find that a provision of ₹ 3 lakhs is necessary against other debts.
- Rebate on bills discounted on 31st March, 2010 was ₹ 24,000 and on 31st March, 2011 was ₹ 32,000.
- Provide ₹ 13,00,000 for income tax.
- The Board of Directors decides to declare dividend @ 10% after transfer of 25% of the year's profit to Statutory Reserve.

You are required to prepare Profit and Loss Account of the bank with all the necessary schedules for the year ended 31st March, 2011. Ignore figures for the previous year and corporate dividend tax.

Financial Statements of Insurance Companies

5. The following particulars are presented to you by Goodluck General Insurance Company regarding its fire insurance business for the year ended 31st March, 2011:

	₹	₹
Reserve for unexpired risk on 31 st March, 2010		
(i) 50% of net premium income for 2009-2010	5,00,000	
(ii) Additional reserve on 31 st March, 2010	<u>1,00,000</u>	6,00,000
Claims paid		2,80,000
Commission paid		80,000
Bad debts		10,000
Expenses of management		2,90,000
Premiums received less reinsurances		12,10,000
Claims outstanding on 31 st March, 2010		1,00,000
Commission earned on reinsurance ceded		59,000
Estimated liability on 31 st March, 2011 in respect of claims due or intimated		2,00,000

Prepare the Fire Revenue Account for the year ended 31st March, 2011 in the proper form and with necessary schedules. On 31st March, 2011 the company decides to keep total additional reserve for unexpired risk equal to 15% of the net premium income for the year.

Financial Statements of Electricity Companies

6. Damini Electricity Company earned a profit of ₹ 1,20,00,000 (after tax) for the year ended 31st March, 2011 on which date it had a capital base of ₹ 8,74,00,000 and the bank rate was 8%. The following additional information about the company is also provided to you:

	₹
Reserve Fund Investment, invested in 8% Government securities at par	1,20,00,000
Contingencies Reserve Fund Investments @ 7% per annum	50,00,000
Loan from State Electricity Board	1,00,00,000
11% Debentures	8,00,000
Development Reserve	32,00,000

Show how the surplus of the company will be disposed of under the provisions of the Electricity Act.

Average due Date

7. (a) Steady, a partner in a firm called 'Ready, Steady and Go' withdraws the following amounts for the year ending on 31st December, 2011. He is to be charged interest on drawings @ 10% p.a. The details of his drawings are:

2011	₹	2011	₹
31 January	1,500	31 July	2,500
28 February	1,000	31 August	1,500
31 March	1,600	30 September	1,200
30 April	2,000	31 October	1,000
31 May	1,400	30 November	1,800
30 June	700	31 December	3,160

Calculate the amount of interest on drawings chargeable to Steady. The average due date may be calculated in months.

Account Current

- (b) The following are the transactions that took place between G and H during the period from 1st October, 2010 to 31st March, 2011:

2010		₹
Oct.1	Balance due to G by H	3,000
Oct. 18	Goods sold by G to H	2,500
Nov. 16	Goods sold by H to G (invoice dated November, 26)	4,000
Dec.7.	Goods sold by H to G (invoice dated December, 17)	3,500
Jan. 3	Promissory note given by G to H, at three months	5,000
Feb. 4	Cash paid by G to H	1,000
Mar. 21	Goods sold by G to H	4,300
Mar.28	Goods sold by H to G (invoice dated April, 8)	2,700

Draw up an Account Current upto March 31st, 2011 to be rendered by G to H, charging interest @ 10% per annum. Interest is to be calculated to the nearest rupee.

Self-Balancing Ledgers

- (c) M/s Independent keeps its books on sectional balancing system. Prepare the Total Debtors and Total Creditors accounts in the General Ledger for the year ended 31st December, 2011.

	₹
Debtors' Balance – 1 st January 2011 (Dr.)	20,500
Debtors' Balance – 1 st January 2011 (Cr.)	150
Creditors' Balance – 1 st January 2011 (Cr.)	15,000
Creditors' Balance – 1 st January 2011 (Dr.)	100

Cash paid to creditors	7,600
Discount received thereon	200
Cash received from debtors in full settlement of claim of ₹ 12,410	12,000
Purchases	8,000
Sales returns	80
Returns to suppliers	170
Bad debts	600
Interest charged to debtors	20
Sales	9,000
Cash refunded to debtors	500
Bills Payable accepted (including renewals)	600
Bills Payable withdrawn (upon renewal)	300
Interest on bills payable renewed	15
Bills Receivable received	3,000
Bills Receivable endorsed	700
Bills Receivable dishonoured (out of endorsed)	100
Bills Receivable discounted	200
Bills Receivable dishonoured (as discounted)	50
Transfer from purchase ledger to sales ledger	400
Debtors' Balance on 31 st December 2011 (Cr.)	500
Creditors' Balance on 31 st December 2011(Dr.)	200

Financial Statements of Not-for-Profit Organisations

8. (a) Elite Club has 200 members with an annual subscription of Rs. 3,600 payable by every member. An analysis of subscriptions received by the club during the accounting year ended on 31st March, 2011 revealed the following:

	₹
For the year 2009-10	25,200
For the year 2010-11	6,98,400
For the year 2011-12	<u>7,200</u>
	7,30,800

On 31st March, 2011 it was noted that a sum of ₹ 3,600 was still in arrears for the year ended 31st March, 2010. Calculate the amount of subscriptions that will appear on the credit side of the Club's Income and Expenditure Account for the year

ended 31st March, 2011. Also show how items relating to subscriptions will appear in the Balance Sheet dated 31st March, 2011.

- (b) The following is the Income and Expenditure Account of Patiala House for the year ended 31st March, 2011:

Income and expenditure Account for the year ended 31st March, 2011

	₹		₹
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of furniture	2,500		
To Depreciation:			
Sports Equipment	6,000		
Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-3-2010	31-3-2011
	₹	₹
Subscriptions in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fees	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	-	150

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2010 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On

31st March, 2011. Cash in hand amounted to Rs. 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2011

Accounts from Incomplete Records

9. Fazal keeps his books of accounts by single entry system. However, he is able to give you the following lists of his assets and liabilities in the beginning as well as at the end of the year ended 31st March, 2011:

	On 1 st April, 2010 ₹	On 31 st March, 2011 ₹
Cash in hand	1,750	1,400
Cash at bank	20,000	-
Bank Overdraft	-	1,800
Bills Receivable	15,000	25,000
Stock	93,500	98,700
Debtors	60,000	70,000
Furniture and Fittings	65,000	65,000
Creditors	45,000	31,000
Bills Payable	5,000	Nil

Fazal introduced ₹ 10,000 as fresh capital on 1st October, 2010. He also withdrew ₹ 5,000 every month for his household expenses.

During the year, there was no sale or fresh purchase of furniture and fittings. Ascertain the profit earned by Fazal during the year ended 31st March, 2011 after depreciating furniture and fittings @ 10% per annum and creating a provision for bad debts @ 5% on debtors.

Accounting for Hire Purchase Instalment System

10. The under mentioned data pertain to M/s Jograj & Sons for the year ended 31st December, 2010 who deal in Consumer durables.

	₹
Opening Stock:	
At shop	30,000
With customers at cost	20,000
Purchases	60,000
Hire purchase sales collection	70,000

Opening overdue Installments	10,000
Closing overdue Installments	6,000
Hire purchase expenses	3,000
Details about unmatured installments	
Cost Price	20,000
Sold out price	30,000
Amount of closing Unmatured Installments	18,000
General sales at 10% profit on cost price	22,000
Closing stock at shop	25,000

You are required to prepare the H.P. Trading Account and General Trading Account.

Investment Accounting

11. Alert Holdings P. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 nos. of 13.5% Convertible Debentures of face value of ₹ 100 each of Pergot Ltd. on 1st May 2010 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st, 2010 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2010 the company sold 2,000 Debentures @ ₹ 103 each. On 31st December, 2010 the company received 10,000 equity shares of ₹ 10 each in Pergot Ltd. on conversion of 20% of its holdings. The market value of the debentures and equity shares as at the close of the year were ₹ 106 and ₹ 9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of Alert Holdings P. Ltd. for the year 2010 on Average Cost Basis.

Departmental Accounting

12. (a) The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2011 after adjusting the unrealized department profits if any.

	Deptt. A ₹	Deptt. B ₹
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were ₹ 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A ₹ 1,00,000 including goods from Department B for ₹ 20,000 at cost of Department

- A. (b) Closing stock of Department B ₹ 2,00,000 including goods from Department A for ₹ 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of ₹ 10,000 and ₹ 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The gross profit is uniform from year to year.

Branch Accounts

- (b) Universal Ltd. has a branch which closes its books of account every year on 31st March.

You are required to show journal entries in the books of branch on 31st March, 2011 to rectify or adjust the following:

- (i) Head office allocates ₹ 35,000 to the branch as head office expenses, which have not yet been recorded by branch.
- (ii) Depreciation of branch fixed assets, whose accounts are kept by head office in its books, not yet recorded in the branch books, ₹ 15,000.
- (iii) Branch paid ₹ 40,000 as salary to a head office official on visit to branch and debited the amount to its Salaries Account.
- (iv) Head Office collected ₹ 30,000 directly from a branch customer on behalf of the branch but no intimation was received earlier by the branch. Now the branch learns about it.
- (v) It is learnt that a remittance of ₹ 50,000 sent by the branch has not been received by head office till date.

Insurance Claims

13. A fire engulfed the premises of a business of M/s Danger on the morning of 1st July 2011. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – ₹ 8,000; Equipment – ₹ 5,000; Stock – ₹ 40,000. The cost of salvage amounted to ₹ 17,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2011:

	₹
Sales	23,00,000
Sales Returns	80,000
Purchases	19,00,000
Purchases Returns	25,000
Cartage inward	36,000
Wages	15,000
Stock in hand on 31st December, 2010	3,00,000

Building (valued on 31 st December, 2010)	7,50,000
Equipment (valued on 31 st December, 2010)	1,50,000
Depreciation provision till 31 st December, 2010 on:	
Building	2,50,000
Equipment	45,000

No depreciation has been provided since December 31st 2010. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. On a claim being made on the insurance company, the claim was settled for ₹ 10,50,000. Give necessary journal entries in this regard.

Partnership - Admission of a Partner

14. (a) Red and Green are partners sharing profits and losses in the ratio of 3:2 after allowing ₹ 500 p.m. salary for each partner. However, the accounts have not been prepared for the last three years. From the following details, you are required to calculate the distribution of profits between the partners in total for the three years.

	₹
Assets as at the end of 3 rd year	80,000
Liabilities as at the end of 3 rd year	20,000
Drawings for three years in addition to Salaries:	
Red	15,000
Green	11,000
Capital on commencement:	
Red	25,000
Green	20,000
Introduction of fresh capital during three years	
Red	5,000

- (b) Teak and Walnut are equal partners in Timber Business. The Balance Sheet of their firm as on 31st March, 2011 was as under:

Liabilities	Amount	Assets	Amount
Capital Accounts		Fixed Assets	1,25,000
Teak	80,000	Stocks	32,600
Walnut	80,000	Cash & Bank	27,400
Creditors & Sundry payables	<u>25,000</u>		
	<u>1,85,000</u>		<u>1,85,000</u>

On 1st April, 2011, Plywood is admitted as an equal partner. Prior to his admission, the partners agreed to bring into the books of the firm, stocks worth ₹ 40,000 that was received free of cost from a Business Associate. Consequent to Plywood's entry into the firm the capital base of the firm was expanded to ₹ 3 lakhs with all the partners agreeing to adopt the proportionate capital principle. Plywood brought in the agreed sum of ₹ 1,40,000. (₹ 1,00,000 towards capital and ₹ 40,000 towards his share of goodwill). The partners decided not to raise goodwill in the books of accounts.

You are requested to show Capital Accounts of the three partners and the Balance Sheet of the Firm as on 1st April, 2011.

Partnership - Conversion of a firm to a Company

15. Ramesh, Roshan and Rohan were partners of the firm '3R Enterprises' sharing profits and losses in the ratio of 3:2:1 respectively. On 31st March, 2011 their Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Ramesh's Capital A/c	16,80,000	Land and Buildings	14,00,000
Roshan's Capital A/c	11,60,000	Machinery	11,00,000
Rohan's Capital a/c	6,70,000	Furniture	6,10,000
General Reserve	6,30,000	Stock	8,40,000
Creditors	6,00,000	Debtors	6,00,000
		Cash at Bank	<u>1,90,000</u>
	<u>47,40,000</u>		<u>47,40,000</u>

On the above-mentioned date, the partners decided to convert their firm into a private limited company and named it '3R Enterprises (Private) Ltd.' The company took over all the assets including cash at bank and all the creditors for ₹ 42,00,000 payable in the form of fully paid equity shares of ₹ 10 each. It recorded in its books, land and buildings at ₹ 16,40,000, machinery at ₹ 9,90,000 and created a provision for bad debts @ 5% on debtors. The expenses of the take-over came to ₹ 23,000 which were paid and borne by the company.

The expenses of getting the company incorporated were ₹ 57,000.

The partners distributed the company's shares amongst themselves in their profit sharing ratio. They settled their accounts by paying or receiving cash.

Prepare Realization Account and all the partners' capital accounts in the firm's ledger and pass journal entries in the books of the company for all of its transactions mentioned above.

Accounting in Computerised Environment

16. (a) A large business entity wants to go in for an ERP (Enterprise Resource Planning)

package. Which factors should it consider for the choice of an ERP package?

- (b) Briefly describe the advantages and disadvantages of using an Enterprise Resource Planning (ERP) software in computerized accounting.

Accounting Standards

AS 4

17. (a) A Limited Company closed its accounting year on 30.6.10 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 ₹ 80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.10.

AS 2

- (b) As per Accounting Standard 2 (Revised) 'Valuation of Inventories', what is meant by the term 'inventories'? Also state the general principle of valuation of inventories laid down by this accounting standard.

AS 3

- (c) Describe, very briefly, the benefits of preparing Cash Flow Statement.

AS 5

18. (a) A Limited Company finds that the stock sheets as on 31.3.10 had included twice an item the cost of which was ₹ 20,000.

You are asked to suggest, how the error would be dealt with in the accounts of the year ended 31.3.10.

AS 6

- (b) A company has the policy of charging depreciation @ 18% on machinery on Written Down Value method. As on 31st March, 2010, W.D.V. of machinery was ₹ 10 lakhs and its useful life was assessed 4 years. How much depreciation is to be charged in the accounting year ending 31st March, 2011?

If the above machinery has scrap value of ₹ 2 lakhs at the end of the fourth year, then what would be the amount of depreciation for the accounting year ending 31st March, 2011?

AS 7

- (c) Galaxy Ltd., has signed at 31st December, 2010, the Balance Sheet date, a contract where the total revenue is estimated at ₹ 15 crores and total cost is estimated at

₹ 20 crores. No work began on the contract. Is contractor required to give any accounting effect for the year ended December, 31st 2010 in his accounts?

AS 9

- (d) Y Co. Ltd., used certain resources of X Co. Ltd. In return X Co. Ltd. received ₹ 10 lakhs and ₹ 15 lakhs as interest and royalties respectively from Y Co. Ltd. during the year 2010-11.

You are required to state whether and on what basis these revenues can be recognised by X Co. Ltd.

AS 10

19. (a) Pettets India Ltd. intends to set up a steel pellets plant. The company has acquired a dilapidated factory having area of 5,000 acres at a cost of ₹ 50,000 per acre. The company has incurred ₹ 1,02,00,000 on demolishing the old factory building thereon. A sum of ₹ 57,75,525 (including 5% sales tax) was realized from sale of material salvaged from the site. The company also incurred stamp duty and registration charges of 5% of land value, paid legal and consultancy charges ₹ 5,00,000 for land acquisition and incurred ₹ 1,50,000 on title guarantee insurance. You are required to compute the value of land acquired.

AS 11

- (b) S Ltd. purchased fixed assets costing ₹ 3,000 lakhs on 1.1.2010 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ₹ 40.00 and ₹ 42.50 as on 1.1.2010 and 31.12.2010 respectively. First instalment was paid on 31.12.2010. The entire difference in foreign exchange has been capitalized.

You are required to state, how these transactions would be accounted for.

AS 12

- (c) A company purchased on April 1, 2010 a special purpose machinery for ₹ 1 crore, and received Central Government subsidy for 25% of the price. Effective life of the machinery is 8 years. Explain the accounting treatment and quote the relevant AS.

AS 13

- (d) An unquoted long term investment is carried in the books at its cost of ₹ 5 lakhs. The Published Accounts of the unlisted company received in May, 2010 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 80,000.

State with reasons, how you would deal with them in the Financial Statements

AS 16

- (e) In May, 2010, S Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2011 and the building was put to use immediately thereafter. Interest on actual amount used for construction of the building till its completion was ₹ 18 lakhs whereas the total interest paid to the bank on the loan for the period till 31st March, 2011 amounted to ₹ 25 lakhs.

What amount of interest should be capitalized as per Accounting Standard - 16 ?

AS 19

20. (a) S&P Ltd. availed a lease from N&S Ltd. The conditions of the lease terms are as under:
- (i) Lease period is 3 years, in the beginning of the year 2009, for equipment costing ₹ 10,00,000 and has an expected useful life of 5 years.
 - (ii) The Fair market value is also ₹ 10,00,000.
 - (iii) The property reverts back to the lessor on termination of the lease.
 - (iv) The unguaranteed residual value is estimated at ₹ 1,00,000 at the end of the year 2011.
 - (v) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%.

The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is ₹ 0.7513.

The present value of annuity of ₹ 1 due at the end of 3rd year at 10% IRR is ₹ 2.4868.

State whether the lease constitute finance lease and also calculate unearned finance income.

AS 26

- (b) AIIMS spent ₹ 4 crores during the last three years to develop a drug to be used in the treatment of brain tumour; the expenditure was charged to Profit and Loss Account since the expenditure did not meet Accounting Standard 26 criteria for capitalization. However, in the current year, approval of the Central Government Authority has been received to market the product. The Hospital wishes to capitalize 4 crores, the amount spent in the earlier years also and disclose it as a prior period item. Can it do so? Give reasons in support of your answer.

AS 20

- (c) Compute Basic Earnings per share from the following information:

Date	Particulars	No. of shares
1 st April, 2009	Balance at the beginning of the year	1,500
1 st August, 2009	Issue of shares for cash	600
31 st March, 2010	Buy back of shares	500

Net profit for the year ended 31st March, 2010 was ₹ 2,75,000.

AS 29

- (d) An airline is required by law to overhaul its aircraft once in every five years. A company which operates aircrafts does not provide any provision as required by law in its final account. Discuss with reference to relevant Accounting Standard.

SUGGESTED ANSWERS/HINTS

1. (a) Distributable profits mean profit arrived at after providing for depreciation on assets, not only for the year in which the profits are earned but also for any arrears of depreciation of the past years, calculated in the manner prescribed by Section 205 of the Companies Act, 1956.

Computation of maximum amount that can be paid as Dividend:

	(₹ in lakhs)
Profit before depreciation	80.00
Less: Depreciation as per Section 205	<u>62.00</u>
Distributable profit	<u>18.00</u>

Therefore, maximum amount which can be paid as dividend would be ₹ 18.00 lakhs.

- (b) A joint stock company, earning adequate profits and having part-time directors as well as whole-time directors can pay the maximum managerial remuneration to them as follows:
- The total remuneration to part-time directors taken together should not exceed 1% percent of the net profits of the company, if there is a managing or whole-time director.
 - The total remuneration to a whole-time director should not exceed 5% percent of the net profits of the company.

If there are only part-time directors and no managing or whole-time director in the company, the maximum managerial remuneration paid to them should not exceed 3% percent of the net profits of the company.

Note: With the approval of the Central Government, the above limits can be exceeded.

(c)

Z Ltd.

Cash Flow Statement for the year ended 31st March, 2011

	₹ in lakhs	₹ in lakhs
<u>Cash flow from operating activities</u>		
Cash receipts from customers	560	
Cash paid to suppliers	(400)	
Cash paid to employees	(20)	
Cash paid for overhead expenses	(40)	
Cash generated from operations	100	
Less: Income tax paid	(35)	
<i>Net cash generated from operating activities</i>		65
<u>Cash flow from investing activities</u>		
Purchase of machinery	(55)	
Proceeds from sale of land and building	20	
<i>Net cash used in investing activities</i>		(35)
<u>Cash flow from financing activities</u>		
Proceeds from issuance of equity share	60	
Repayment of bank loan	(60)	
Dividend paid	(10)	
<i>Net cash used in financing activities</i>		(10)
Net increase in cash and cash equivalents		20
Add: Cash and bank balances as on 1 st April, 2010		10
Cash and bank balances as on 31 st March, 2011		30

2. (a)

Journal Entries

			₹	₹
1.	Bank A/c To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	Dr.	10,00,000	10,00,000
2.	11% Preference share application & allotment A/c To 11% Preference Share Capital A/c (Being allotment of 1 lakh preference shares)	Dr.	10,00,000	10,00,000

3.	Securities Premium A/c General Reserve A/c To Capital Redemption Reserve A/c (Being creation of capital redemption reserve for buy back of shares)	Dr. Dr.	16,00,000 14,00,000	30,00,000
4.	Equity share capital A/c General reserve A/c To Equity shareholders / Equity Shares buy back A/c (Amount payable to equity shareholder on buy back)	Dr. Dr.	40,00,000 48,00,000	88,00,000
5.	Equity shareholders/ Equity Shares buy back A/c To Bank A/c (Being payment made for buy back of shares)	Dr.	88,00,000	88,00,000

Working Notes:**1. Calculation of amount used from General Reserve Account**

	₹
Amount paid for buy back of shares (4,00,000 shares x ₹22)	88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹10)	(10,00,000)
Less: Utilisation of Securities Premium Account	<u>(16,00,000)</u>
Balance used from General Reserve Account	<u>62,00,000</u>

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹10)	<u>(10,00,000)</u>
Amount transferred to Capital Redemption Reserve Account	<u>30,00,000</u>

Note: It is assumed that the buy-back of 4,00,000 equity shares is within the prescribed 25% limit of total equity shares.

(b) Journal Entries

			₹	₹
April, 2010	Employees Compensation Expense A/c To Employees Stock Options Outstanding A/c (Grant of 25,000 stock options at ₹ 50 when the market price is ₹140)	Dr.	22,50,000	22,50,000
1 st Jan. 2011 to	Bank A/c	Dr.	12,00,000	
28 th Feb. 2011	Employees Stock Options Outstanding A/c To Equity Share Capital A/c To Securities Premium A/c (Allotment of 24,000 equity shares of ₹10 each at a premium of ₹130 per share to the employees)	Dr. Dr.	21,60,000	2,40,000 31,20,000
Mar. 1	Employees Stock Options Outstanding A/c To Employee Compensation Expense A/c (Lapse of stock options for 1,000 shares)	Dr.	90,000	90,000
Mar 31	Profit and Loss A/c To Employees Compensation Expense A/c (For transfer of employees compensation expense to profit and loss account)	Dr.	21,60,000	21,60,000

3. (a) (1) Loss to be borne by Equity and Preference Shareholders

	₹
Profit and loss account (debit balance)	7,00,000
Preliminary expenses	1,00,000
Goodwill	2,00,000
Plant & Machinery	3,00,000

Debtors	3,50,000
Amount to be written off	16,50,000
Less: 50% of Creditors	3,50,000
Recorded loss borne by the share holders	13,00,000
Add: Arrears of preference dividend of 2 years forgone by the preference shareholders	<u>1,40,000</u>
Total sacrifice by the shareholders of Weak Ltd.	<u>14,40,000</u>

(2) Share of loss to be borne by the equity and preference shareholders

	₹	₹
Total recorded loss of ₹13,00,000		
Preference shareholders' share of loss = 20% of ₹ 10,00,000	2,00,000	
Add: Arrears of preference dividend	<u>1,40,000</u>	3,40,000
Equity shareholders' share of loss (₹13,00,000 – ₹ 2,00,000) being more than 51% of equity share capital		<u>11,00,000</u>
		<u>14,40,000</u>

(3) New share capital after restructuring

	₹
Equity shares:	
20,000 Equity shares of ₹ 45 each, fully paid up (₹ 20,00,000 – ₹ 11,00,000)	9,00,000
Preference shares:	
10,000, 9% Preference shares of ₹ 80 each, fully paid up (₹ 10,00,000 – ₹ 2,00,000)	8,00,000
	<u>17,00,000</u>

(4) Working capital of the restructured company

	₹	₹
Current Assets:		
Inventories		3,00,000
Debtors		4,00,000
Cash & Bank		1,50,000

Less: Current liabilities:		8,50,000
Creditors	3,50,000	
Bank overdraft (3,00,000-2,25,000)	75,000	(4,25,000)
		<u>4,25,000</u>

(5) **Balance Sheet of Weak Ltd. (As reduced)**
as on 31st March, 2011

Liabilities	₹	Assets	₹
Share Capital		Plant & Machinery	15,00,000
20,000 Equity shares of ₹ 45 each fully paid up	9,00,000	Inventories	3,00,000
10,000, 9% Preference shares of ₹ 80 each	8,00,000	Debtors	4,00,000
Rich Bank Term Loan (3,00,000 – 75,000)	2,25,000	Cash & Bank	1,50,000
Rich Bank Overdraft	75,000		
Creditors	<u>3,50,000</u>		
	<u>23,50,000</u>		<u>23,50,000</u>

(b) Statement showing liability of B List Contributories

Name of shareholders	Shares	Maximum liability @ ₹ 2	3.5.2010	1.9.2010	23.11.10	1.2.11	Total
		₹	₹	₹	₹	₹	₹
B	1,500	3,000	1,500	-	-	-	1,500
C	1,000	2,000	1,000	555	-	-	1,555
D	500	1,000	500	278	188	-	966
E	<u>300</u>	<u>600</u>	<u>300</u>	<u>167</u>	<u>112</u>	<u>21</u>	<u>600</u>
	<u>3,300</u>	<u>6,600</u>	<u>3,300</u>	<u>1,000</u>	<u>300</u>	<u>21</u>	<u>4,621</u>

Working Notes:

1. Ratio of distribution

Date	Cumulative liability	Increase in liability	Ratio for distribution as per the maximum liability
3-5-2010	3,300	-	30:20:10:6
1-9-2010	4,300	1,000	20:10:6
23-11-2010	4,600	300	10:6
1-2-2011	6,000	1,400	Only E

2. Liability of shareholder 'E' is restricted to ₹ 600. Therefore, the amount payable by 'E' on 1.2.2011 is restricted to ₹ 21 only.
3. Shareholder 'A' is not liable as he had transferred his shares prior to one year preceding the date of winding up.

4.

National Bank Limited

Profit and Loss account for the year ended 31st March, 2011

		Schedule No	Year ended 31.3.2011
			₹
I.	<u>Income</u>		
	Interest earned	13	74,03,000
	Other income	14	<u>9,10,000</u>
			<u>83,13,000</u>
II.	<u>Expenditure</u>		
	Interest expended	15	40,74,000
	Operating expenses	16	9,10,000
	Provisions and contingencies (W.N.2)		<u>26,00,000</u>
			<u>75,84,000</u>
III.	<u>Profit</u>		
	Net profit for the year		7,29,000
	Profit brought forward		<u>-</u>
			<u>7,29,000</u>
IV.	<u>Appropriations</u>		
	Transfer to Statutory Reserve		1,82,250
	Proposed dividend		2,00,000
	Balance carried over to balance sheet		<u>3,46,750</u>
			<u>7,29,000</u>

Schedule 13 – Interest earned

	₹
Interest and discount earned (W.N.1)	<u>74,03,000</u>
	<u>74,03,000</u>

Schedule 14 - Other Income

	₹
Commission, exchange and brokerage	3,80,000
Profit on sale of investment	4,00,000
Rent	<u>1,30,000</u>
	<u>9,10,000</u>

Schedule 15-Interest Expended

	₹
Interest paid on deposits	<u>40,74,000</u>
	<u>40,74,000</u>

Schedule 16-Operating Expenses

	₹
Payment and provisions for employees	4,00,000
Rent and taxes paid	1,80,000
Depreciation on bank's property	60,000
Directors' fees and allowances	60,000
Auditors' fees	10,000
Law charges	80,000
Postage and Telegrams	<u>1,20,000</u>
	<u>9,10,000</u>

Working Notes:

		₹
1.	Calculation of interest earned	
	Interest and discount received	74,11,000
	Add: Rebate on bills discounted as on 31 st March, 2010	<u>24,000</u>
		74,35,000
	Less: Rebate on bills discounted as on 31 st March, 2011	<u>(32,000)</u>
		<u>74,03,000</u>

2.	Provisions and Contingencies		
	Provision for doubtful debts:		
	Doubtful debts due to insolvency of a customer (50% of ₹ 20 lakhs)	10,00,000	
	Provision for other debts	<u>3,00,000</u>	13,00,000
	Provision for income tax		<u>13,00,000</u>
			<u>26,00,000</u>

5. Goodluck General Insurance Company
Fire Revenue Account for the year ended 31st March, 2011

	Schedule	Current year ₹
Premium earned (Net)	1	<u>10,23,500</u>
Total (A)		<u>10,23,500</u>
Claims incurred (net)	2	3,80,000
Commission	3	21,000
Operating expenses relating to insurance business	4	<u>2,90,000</u>
Total (B)		<u>6,91,000</u>
Operating Profit from General Insurance Business C=(A)-(B)		<u>3,32,500</u>
Appropriations:		
Transfer to shareholders account		<u>3,32,500</u>

Schedule 1: Premium Earned (Net)

			₹
Premium received less reinsurance			12,10,000
Adjustment for change in reserve for unexpired risk:			
Total opening provisions		6,00,000	
Closing provision:			
50% of net premium	6,05,000		
Additional provision @ 15%	<u>1,81,500</u>	<u>(7,86,500)</u>	<u>(1,86,500)</u>
Premium Earned (Net)			<u>10,23,500</u>

Schedule 2: Claims Incurred (Net)

	₹
Claims paid	2,80,000
Add: Claims outstanding at the end of the year	<u>2,00,000</u>
	4,80,000
Less: Claims outstanding at the beginning of the year	<u>(1,00,000)</u>
	<u>3,80,000</u>

Schedule 3: Commission

	₹
Commission paid	80,000
Less: Commission earned in reinsurance ceded	<u>(59,000)</u>
	<u>21,000</u>

Schedule 4: - Operating expenses relating to insurance business

Expenses of management	₹ 2,90,000
------------------------	------------

6. Calculation of Reasonable Return

	₹
10% (Bank rate 8% +2%) of capital base	87,40,000
8% on Reserve fund investments	9,60,000
½% on Loan from State Electricity Board	50,000
½% on 11% Debentures	4,000
½ on Development reserve	<u>16,000</u>
	<u>97,70,000</u>
Surplus:	
Clear Profit – Reasonable return (₹ 1,20,00,000-97,70,000)	₹ 22,30,000
20% of Reasonable Return	₹ 19,54,000
whichever is less is for disposal as surplus i.e.	₹ 19,54,000

Statement showing Disposal of surplus

		₹
(i)	1/3 rd of surplus limited to 5% of reasonable return is at the disposal of the company	4,88,500
	1/3 rd of surplus = ₹ 6,51,333	

	Or, 5% of reasonable return = ₹ 4,88,500	
(ii)	Credit to Tariffs and Dividend Control Reserve (1/2 of remaining balance of 20% of reasonable return) ₹ 19,54,000 – 4,88,500 = ₹ 14,65,500 x 1/2	7,32,750
(iii)	Remaining balance credited to customers account	<u>7,32,750</u>
		<u>19,54,000</u>

7. (a) Taking 1st January as zero date, we get:

Date of drawings	Amount	Months after 1	Products
2011	₹	January, 2011	₹
31 st January	1,500	1	1,500
28 th February	1,000	2	2,000
31 st March	1,600	3	4,800
30 th April	2,000	4	8,000
31 st May	1,400	5	7,000
30 th June	700	6	4,200
31 st July	2,500	7	17,500
31 st August	1,500	8	12,000
30 th September	1,200	9	10,800
31 st October	1,000	10	10,000
30 th November	1,800	11	19,800
31 st December	<u>3,160</u>	12	<u>37,920</u>
	<u>19,360</u>		<u>1,35,520</u>

$$\text{Average Due Date} = \text{Base date} + \frac{\text{Total of Products}}{\text{Total of Amount}} = 1^{\text{st}} \text{ January, 2011} + \frac{1,35,520}{19,360}$$

= 7 months from 1st January 2011 i.e., 31st July 2011

The amount of interest on drawings chargeable to Steady from 1st August, 2011 to 31st December, 2011

= 10% p.a. on ₹ 19,360 for 5 months

$$= \frac{19,360 \times 10 \times 5}{100 \times 12} = ₹ 807 \text{ (approx.)}$$

(b)

In the books of G
H in Account Current with G
(Interest to 31st March, 2011 @ 10% p.a.)

Date	Due date	Particulars	No., of days till 31.3.11	Amount	Product	Date	Due date	Particulars	No. of days till 31.3.11	Amount	Product
2010	2010			₹		2010	2010			₹	
Oct. 1,	Oct. 1,	To Balance b/d	182	3,000	5,46,000	Nov. 16	Nov. 20	By Purchases	125	4,000	5,00,000
Oct. 18, 2011	Oct. 18, 2011	To Sales	164	2,500	4,10,000	Dec 7 2011	Dec. 17 2011	By Purchases	104	3,500	3,64,000
Jan. 2	Apr. 6	To Bills payable	(6)	5,000	(30,000)	Mar. 28	Apr. 8	By Purchases	(8)	2,700	(21,600)
Feb. 4	Feb. 4	To Cash	55	1,000	55,000	Mar. 31	Mar. 31	By Balance of product			1,81,600
Mar. 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar. 31	Mar. 31	To Interest $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$		50	-						
				<u>15,850</u>	<u>10,24,000</u>					<u>15,850</u>	<u>10,24,000</u>

(c)

In the General Ledger

Total Debtors Account

2011	₹	2011	₹
Jan. 1		Jan. 1	
To Balance b/d	20,500	By Balance b/d	150
Till Dec. 31		Till Dec. 31	
To Interest	20	By Cash	12,000
To Sales	9,000	By Discount allowed	410
To Cash Refund	500	By Returns	80
To Total Creditors Account		By Bad Debts	600
(B/R dishonoured as endorsed)	100	By Bills Receivable	3,000
To Bank (B/R dishonoured as discounted)	50	By Transfer from Purchase Ledger to Sales Ledger	400
To Balance c/d	500	By Balance c/d	14,030
		(Bal. Fig.)	
	30,670		30,670
2012		2012	
Jan. 1		Jan. 1	
To Balance b/d	14,030	By Balance b/d	500

Total Creditors Account

2011	₹	2011	₹
Jan. 1		Jan. 1	
To Balance b/d	100	By Balance b/d	15,000
Till Dec. 31		Till Dec. 31	
To Cash	7,600	By Purchases	8,000
To Discount received	200	By Bills Payable	300
To Returns Outwards	170	(Withdrawn)	
To Bills Payable		By Interest on Bills Payable (Renewal)	15
(including renewals)	600	By Total Debtors Account	
To Bills Receivable (Endorsed)	700	(Bills Receivable)	100
To Transfer from Purchase			

Ledger to Sales Ledger	400	(Dishonoured as endorsed)	
To Balance c/d (Bal.Fig.)	13,845	By Balance c/d	200
	<u>23,615</u>		<u>23,615</u>
Jan. 1, 2012		Jan. 1, 2012	
To Balance b/d	200	By Balance b/d	13,845

Notes:

1. Bills Receivable discounted is not shown in the total accounts.
2. Bills Receivable dishonoured (as endorsed) has to be entered both in total debtors and total creditors accounts. It is credited in the total creditors account and debited in the total debtors account.

8 (a) **Income and Expenditure Account**
for the year ended 31st March, 2011 (An Extract)

		<i>Income</i>	₹
		Subscriptions (₹ 3,600 x 200 members)	7,20,000

Balance Sheet as on 31st March, 2011 (An Extract)

Liabilities	₹	Assets	₹
Subscription received in advance	7,200	Subscription in arrear:	
		For 2009-10	3,600
		For 2010-11	<u>21,600</u>
			25,200

Working Note:

Subscription due for 2010-11 (₹ 3,600 x 200)	₹ 7,20,000
Subscription received for 2010-11	<u>₹ 6,98,400</u>
Subscription in arrear for 2010-11	<u>21,600</u>

(b) **Receipts and Payments Account**
For the year ended 31-3-2011

To Subscription A/c (W.N.1)	67,050	By Balance b/d		
To Donation A/c	5,000	(Bank overdraft)		15,000
To Entrance Fees A/c	4,000	By Salary	19,500	

To Furniture A/c (Sale of furniture) (7,000 – 2,500)	4,500	Add: Outstanding of last year	1,200	20,350
		Less: Outstanding of this year	(350)	
		By Rent	4,500	4,200
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(800)	
		By Printing		750
		By Insurance	500	650
		Add: Prepaid in this year	150	
		By Audit Fees	750	500
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	
		By Games & Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment (Purchased) (W.N. 2)		5,000
		By Furniture (Purchased) (W.N. 3)		8,000
		By Balance c/d		
		Cash		850
		Bank (bal. fig.)		7,250
	80,550			80,550

Working Notes:

1. Calculation of subscription received during the year 2010-2011

	₹	₹
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2010-2011	3,700	
Advance in 2009-2010	1,000	(4,700)
		63,300
Add: Arrears of 2009-2010	2,600	
Advance for 2011-2012	1,500	4,100
		67,400
Less: Written off during 2010-2011		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2010-2011

Sports Equipment A/c

	₹		₹
To Balance b/d	25,000	By Income & Expenditure A/c	6,000
To Receipts & Payments A/c (Purchased) (bal. fig.)	5,000	(Depreciation)	
		By Balance c/d	24,000
	30,000		30,000

3. Calculation of Furniture purchased during 2010-2011

Furniture A/c

	₹		₹
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts & Payments A/c (Purchased)(Bal.fig.)	8,000	By Income & Expenditure A/c (Loss on sale)	2,500
		By Income & Expenditure A/c (Depreciation)	3,100
		By Balance c/d	27,900
	38,000		38,000

9. Statement of Affairs as on 1st April, 2010

	₹		₹
Creditors	45,000	Cash in Hand	1,750
Bills Payable	5,000	Cash at Bank	20,000
Capital (bal.fig.)	2,05,250	Bills Receivable	15,000
		Stock	93,500
		Debtors	60,000
		Furniture and Fittings	<u>65,000</u>
	<u>2,55,250</u>		<u>2,55,250</u>

Statement of Affairs as on 31st March, 2011

Liabilities	₹	Assets	₹	₹
Creditors	31,000	Cash in Hand		1,400
Bank Overdraft	1,800	Bills Receivable		25,000
Capital (bal.fig.)	2,17,300	Stock		98,700

		Debtors	70,000	
		Less: Provision for doubtful debts	<u>(3,500)</u>	66,500
		Furniture and fittings	65,000	
		Less: Depreciation	<u>(6,500)</u>	<u>58,500</u>
	<u>2,50,100</u>			<u>2,50,100</u>

Statement of Profit

	₹
Capital as on 31 st March, 2011	2,17,300
Add: Drawings (₹ 5,000 x 12)	<u>60,000</u>
	2,77,300
Less: Additional capital	<u>(10,000)</u>
	2,67,300
Less: Capital as on 1 st April, 2010	<u>(2,05,250)</u>
Profits during the year	<u>62,050</u>

10.

Hire Purchase Trading Account

Particulars	₹	Particulars	₹	
To Opening Stock:		By H.P. Sales:		
With customers	20,000	Collection	70,000	
To General Trading Account	45,000	Less: Opening overdue		
To Hire Purchases expenses	3,000	Installments	<u>(10,000)</u>	
To Profit & Loss A/c:			60,000	
H.P. Profit (Bal.fig)	10,000	Add: Closing overdue		
		Installments	6,000	66,000
		By Closing Stock:		
		with customers		
		(18,000x20,000/30,000)		<u>12,000</u>
	<u>78,000</u>			<u>78,000</u>

General Trading Account

Particulars	₹	Particulars	₹
To Opening Stock	30,000	By Goods sold on hire purchase	45,000
To Purchases	60,000	(Bal.fig.)	

To Gross Profit transferred to Profit and Loss A/c		By Sales	22,000
	2,000	By Closing stock	25,000
	92,000		92,000

11.

Books of Alert Holdings P Ltd**Investment in 13.50% Convertible Debentures in Pergot Ltd. Account****(Interest payable 31st March & 30th September)**

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
		₹	₹	₹			₹	₹	₹
2010 May 1	To Bank	5,00,000	5,625	5,19,375	2010 Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313		Dec.31	By Equity share	1,10,000		1,12,108
					Dec.31	By Bank (See note1)		3,713	
					Dec.31	By Balance c/d	4,40,000	14,850	4,48,434
		<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>			<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>

Note 1: ₹ 3,713 received on 31.12.2010 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than market value the debentures are carried forward at cost.

Investment in Equity shares in Pergot Ltd. Account

Date	Particulars	Nominal	Dividend	Amount	Date	Particulars	Nominal	Dividend	Amount
		₹		₹			₹		₹
2010 Dec31	To 13.5% Deb.	1,00,000		1,12,108	2010 Dec.31	By P&L A/c			22,108
					Dec.31	By Bal. c/d	1,00,000		90,000
		<u>1,00,000</u>		<u>1,12,108</u>			<u>1,00,000</u>		<u>1,12,108</u>

Note 1: Cost being higher than market value the shares are carried forward at market value.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2010 for the month of April 2010, as part of purchase price: $5,00,000 \times 13.5\% \times 1/12 = ₹ 5,625$
2. Interest received on 30th Sept. 2010
 $\text{On Rs. } 5,00,000 = 5,00,000 \times 13.5\% \times \frac{1}{2} = 33,750$
 $\text{On Rs. } 2,50,000 = 2,50,000 \times 13.5\% \times \frac{1}{2} = \underline{16,875}$
Total ₹ 50,625
3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2010 for April 2010 to July 2010 as part of purchase price:
 $2,50,000 \times 13.5\% \times 4/12 = ₹ 11,250$
4. Loss on Sale of Debentures
 Cost of acquisition
 $(5,19,375 + 2,45,000) \times 2,00,000/7,50,000 = 2,03,833$
 Less: Sale Price (2000 x 103) = 2,06,000
 Profit on sale ₹ 2,167
5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2010
 $1,10,000 \times 13.5\% \times 3/12 = ₹ 3,713$
6. Cost of Debentures converted to Equity Shares
 $(5,19,375 + 2,45,000) \times 1,10,000/7,50,000 = ₹ 1,12,108$
7. Cost of balance Debentures
 $(5,19,375 + 2,45,000) \times 4,40,000/7,50,000 = ₹ 4,48,434$
8. Interest on Closing Debentures for period Oct.-Dec. 2010 carried forward (accrued interest)
 $4,40,000 \times 13.5\% \times 3/12 = ₹ 14,850$

12. (a) **Departmental Trading and Loss Account of M/s Division**
For the year ended 31st December, 2011

	Deptt. A	Deptt. B		Deptt. A	Deptt. B
	₹	₹		₹	₹
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000

To Gross profit	<u>4,00,000</u>	<u>7,50,000</u>			
	<u>11,00,000</u>	<u>17,00,000</u>		<u>11,00,000</u>	<u>17,00,000</u>
To General Expenses (in ratio of sales)			By Gross profit	4,00,000	7,50,000
	50,000	75,000			
To Profit to general profit and loss account	3,50,000	6,75,000			
	<u>4,00,000</u>	<u>7,50,000</u>		<u>4,00,000</u>	<u>7,50,000</u>

General Profit and Loss Account

	₹		₹
To Stock reserve required (additional: Stock in Deptt. A 50% of (₹ 20,000 - ₹ 10,000) (W.N.1) Stock in Deptt. B 40% of (₹ 30,000 - ₹ 15,000) (W.N.2) To Net Profit	5,000 6,000 10,14,000 <u>10,25,000</u>	By Profit from: Deptt. A Deptt. B	3,50,000 6,75,000 <u>10,25,000</u>

Working Notes:

1. Stock of department A will be adjusted according to the rate applicable to department B = $[(7,50,000 \div 15,00,000) \times 100] = 50\%$
2. Stock of department B will be adjusted according to the rate applicable to department A = $[(4,00,000 \div 10,00,000) \times 100] = 40\%$

(b)

In the books of the Branch

Journal Entries

			₹	₹
(i)	Head Office Expenses A/c To Head Office A/c (Expenses allocated by the Head Office)	Dr.	35,000	35,000
(ii)	Depreciation of Fixed Assets A/c To Head Office A/c (Depreciation on fixed assets whose accounts are maintained by the Head Office)	Dr.	15,000	15,000

(iii)	Head Office A/c To Salaries A/c (Rectification of errors regarding salary paid to head office official)	Dr.	40,000	40,000
(iv)	Head Office A/c To Debtor A/c (Amount directly collected by head office from a branch debtor)	Dr.	30,000	30,000
(v)	No entry will be passed in the books of the Branch			

Note: It is presumed that Universal Ltd. has an independent branch which maintains comprehensive books of account for recording their transactions.

13. Memorandum Trading Account for the Period from 1.1.2011 to 30.6.2011

	₹		₹
To Opening Stock (1.1.2011)	3,00,000	By Sales	23,00,000
To Purchases 19,00,000		Less: Sales Returns (80,000)	22,20,000
Less: Returns (25,000)	18,75,000	By Closing Stock (Bal. Fig.)	5,60,000
To Cartage Inwards 35,000			
To Wages 15,000			
To Gross Profit (25% of Rs. 22,20,000)	5,55,000		
	27,80,000		27,80,000

Stock Destroyed Account

	₹		₹
To Trading Account	5,60,000	By Stock Salvaged Account	40,000
		By Balance c/d (For Claim)	5,20,000
	<u>5,60,000</u>		<u>5,60,000</u>

Statement of Claim

Items	Cost (₹)	Depreciation (₹)	Salvage (₹)	Claim (₹)
A	B	C	D	(E=B-C-D)
Stock	5,60,000		40,000	5,20,000
Buildings	7,50,000	2,50,000 + 18,750	8,000	4,73,250
Equipment	1,50,000	45,000 + 11,250	5,000	88,750
Cost of salvage	17,000	-	-	17,000
				<u>10,99,000</u>

Journal Entries

		₹	₹
Insurance Company Account	Dr.	10,99,000	
To Stock Destroyed Account			5,20,000
To Buildings Account			4,73,250
To Equipment Account			88,750
To Cost of Salvage Account			17,000
(Amount of claim submitted)			
Bank Account	Dr.	10,50,000	
Profit and Loss Account	Dr.	49,000	
To Insurance Company Account			10,99,000
(Amount of claim admitted to the extent of ₹ 10,50,000; the balance transferred to profit and loss account)			

14. (a) Statement showing distribution of profits between the partners

		₹
Assets at the end of the 3rd year		80,000
Less: Liabilities at the end of the 3rd year		(20,000)
		60,000
Add: Drawings including partnership salary:		
Red [15,000 + (500 x 12 x 3)]	₹ 33,000	
Green [11,000 + (500 x 12 x 3)]	₹ 29,000	62,000
		1,22,000
Less: Opening Capital:		
Red	₹ 25,000	
Green	₹ 20,000	(45,000)
		77,000
Less: Introduction of capital:		
Red		(5,000)
Net Profit		72,000

Profit and Loss Appropriation Account for 3 years

Particulars	₹	Particulars	₹
To Partner's Salary		By Net Profit for three years	72,000
Red (500 x 12 x 3)	18,000		
Green (500 x 12 x 3)	18,000		
To Share of Profit			
Red 21,600			
Green <u>14,400</u>	36,000		
	72,000		72,000

(b) Partners' Capital Accounts

Particulars	Teak	Walnut	Plywood	Particulars	Teak	Walnut	Plywood
	₹	₹	₹		₹	₹	₹
To Teak & Walnut	-	-	40,000	By Balance b/d	80,000	80,000	-
To Bank	20,000	20,000	-	By Bank	-	-	1,40,000
To Balance c/d	1,00,000	1,00,000	1,00,000	By Plywood	20,000	20,000	-
				By Stock A/c	<u>20,000</u>	<u>20,000</u>	-
	<u>1,20,000</u>	<u>1,20,000</u>	<u>1,40,000</u>		<u>1,20,000</u>	<u>1,20,000</u>	<u>1,40,000</u>

Balance Sheet of M/s Teak, Walnut & Plywood as on 1st April, 2011

Liabilities	₹	Assets	₹
Capital Accounts		Fixed Assets	1,25,000
Teak	1,00,000	Stocks	72,600
Walnut	1,00,000	Cash & Bank	1,27,400
Plywood	1,00,000		
Creditors & Sundry Payables	25,000		
	<u>3,25,000</u>		<u>3,25,000</u>

Working Note:

Old profit sharing ratio: 1:1

New ratio: 1:1:1

Plywood's share of capital = $3,00,000/3 = ₹ 1,00,000$ Goodwill = $1,40,000 - 1,00,000 = ₹ 40,000$ for the 1/3rd share

15. In the books of 3R Enterprises

Realisation Account

	₹		₹
To Land and Buildings	14,00,000	By Creditors	6,00,000
To Machinery	11,00,000	By 3R Enterprises (Pvt.) Ltd. A/c	42,00,000
To Furniture	6,10,000		
To Stock	8,40,000		
To Debtors	6,00,000		
To Cash at Bank	1,90,000		
To Ramesh's capital	30,000		
To Roshan's capital	20,000		
To Rohan's capital	10,000		
	<u>48,00,000</u>		<u>48,00,000</u>

Partners' Capital Accounts

	Ramesh	Roshan	Rohan		Ramesh	Roshan	Rohan
	₹	₹	₹		₹	₹	₹
To Shares in 3R Enterprises (Pvt.) Ltd. A/c	21,00,000	14,00,000	7,00,000	By Balance b/d	16,80,000	11,60,000	6,70,000
				By General Reserve	3,15,000	2,10,000	1,05,000
To Bank A/c (Settlement)	-	-	85,000	By Realization A/c (Profit)	30,000	20,000	10,000
				By Bank A/c (Settlement)	<u>75,000</u>	<u>10,000</u>	<u>-</u>
	<u>21,00,000</u>	<u>14,00,000</u>	<u>7,85,000</u>		<u>21,00,000</u>	<u>14,00,000</u>	<u>7,85,000</u>

Journal Entries

			₹	₹
1.	Business Purchase A/c To M/s 3R Enterprises (Consideration payable for business purchased)	Dr.	42,00,000	42,00,000
2.	Land and Buildings A/c	Dr.	16,40,000	
	Machinery A/c	Dr.	9,90,000	
	Furniture A/c	Dr.	6,10,000	

	Stock A/c	Dr.	8,40,000	
	Debtors A/c	Dr.	6,00,000	
	Bank A/c	Dr.	1,90,000	
	To Creditors A/c			6,00,000
	To Provision for doubtful debts A/c			30,000
	To Business Purchase A/c			42,00,000
	To Capital Reserve A/c			40,000
	(Assets and liabilities taken over for Rs.42,00,000; balance credited to capital reserve)			
3.	Capital reserve A/c	Dr.	23,000	
	To Bank A/c			23,000
	(Expenses for take over debited to capital reserve)			
4.	M/s 3R Enterprises A/c	Dr.	42,00,000	
	To Equity share capital A/c			42,00,000
	(Allotment of fully paid equity shares to discharge consideration for business)			
5.	Preliminary expenses A/c	Dr.	57,000	
	To Bank A/c			57,000
	(Expenses incurred to get the company incorporated)			

16. (a) The business entity should consider the following factors while choosing an ERP package:
- Functional requirement of the organization: The ERP that matches most of the requirements of the organization should be preferred to others.
 - Reports available in the ERP: The organization should visualize the reporting requirements and choose a vendor which fulfils them.
 - Background of the vendors: The service and deliverable record of a vendor is extremely important in choosing the vendor.
 - Budget of the organization: The budget constraint and fund position of the enterprise should also be taken into consideration.
- (b) The followings are the advantages of using an Enterprise Resource Planning (ERP) software in computerized accounting:
- It covers most of the common functions.
 - It generates most of the desired reports which are standardize across industries and acceptable to users.

- (iii) It being an integrated package, duplication is avoided.
- (iv) Much more information is made available by this package than what is available otherwise.

The followings are the disadvantages of ERP:

- (i) The user may have to modify his business procedures to use ERP effectively.
- (ii) It is often too expensive for small and medium sized organizations.
- (iii) There may be implementation hurdles.
- (iv) It is a complex software. Large number of modules, parameter settings and configuration makes it a complex.

17. (a) 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 by ₹ 80 lakhs 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.

- (b) As per Accounting Standard 2 (Revised) 'Valuation of Inventories', inventories mean assets:
- (i) held for sale in the ordinary course of business;
 - (ii) in the process of production for such sale; and
 - (iii) in the form of materials, spares, or supplies to be consumed in the production process or in rendering of services

The general principle of valuation of inventories is that inventories should be valued at the lower of cost and net realisable value.

- (c) The followings are the benefits of preparing Cash Flow Statement:
- (i) It gives much more reliable information regarding results of the enterprise than the profit and loss account.
 - (ii) It gives an idea of the ability of the enterprise to meet its short term cash commitments and to pay dividend.
 - (iii) It is useful in checking the accuracy of past assessments of future cash flows.
 - (iv) It is very useful in planning and preparing cash budget for a future period.

- (v) It is useful in getting information about changes in cash and cash equivalents over a period.
18. (a) The error in the recording of closing stock of the year ended 31st March, 2010 must have also resulted in overstatement of profits of previous year, brought forward to the current year ended 31st March, 2011 vide para 4 of AS 5 (Revised) 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the rectifications is required in the current year as 'Prior Period Item'. Accordingly, ₹ 20,000 should be deducted from opening stock in the profit and loss account. And ₹ 20,000 should be charged as prior period adjustment in the profit and loss account for the year ended 31st March 2011 in accordance with para 15 of AS 5 (Revised) which requires that the nature and amount of prior period 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) (a)

	(₹ in lakhs)
W.D.V. as on 31 st March, 2010	10.00
Depreciation for 2010-11 (Rs.10 lakh x 18%)	1.8

(b) Where machinery has scrap value of ₹ 2,00,000

$$\text{Rate of depreciation as per WDV} = 1 - \sqrt[n]{\frac{\text{Scrap value}}{\text{Cost}}} \times 100$$

$$\text{Rate of depreciation} = \left[1 - \sqrt[4]{\frac{2,00,000}{10,00,000}}\right] \times 100 \text{ or } = \left[1 - \sqrt[4]{\frac{20}{100}}\right] \times 100$$

After applying the log and antilog table, the rate of depreciation would be

$$\begin{aligned} &= [1 - (1/4 \log 20 - 1/4 \log 100)] \times 100 \\ &= [1 - (1/4 \times 1.3010 - 1/4 \times 2.0000)] \times 100 \\ &= [1 - (.32525 - .5)] \times 100 \\ &= [1 - (-.17475)] \times 100 \\ &= [1 - (\text{Antilog } -.17475 + 1 - 1)] \times 100 \\ &= [1 - (\text{Antilog } \bar{1}.8253)] \times 100 \\ &= [1 - 0.6688] \times 100 = .3312 \times 100 = 33.12\% \end{aligned}$$

	(₹ in lakhs)
W.D.V. as on 31 st March, 2010	10
Depreciation to be charged in 2010-11 @ 33.12%	3.312

- (c) As per para 35 of AS 7 'Construction Contracts, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. The amount of such loss is determined irrespective of whether or not work has commenced on the contract. Thus, Galaxy Ltd. should recognize loss amounting ₹ 5 crores for the year ended 31st December, 2010. The contract should be reviewed at the end of the each accounting period for additional losses to be incurred, if any.
- (d) As per para 13 of AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognised when no significant uncertainty as to measurability or collectability exists. These revenues are recognised on the following bases:
- (i) Interest: on a time proportion basis taking into account the amount outstanding and the rate applicable.
 - (ii) Royalties: on an accrual basis in accordance with the terms of the relevant agreement
19. (a) Para 20 of AS 10 'Accounting for Fixed Assets' stipulates that the cost of a fixed asset should comprise of its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Further, in para 9, the standard gives examples of attributable costs such as site preparation & professional fees. Subsequently, through para 10.1 the standard also permits elimination of internal profits in arriving at costs. Accordingly the cost of the land will be as under:

	(₹ in lakhs)
Purchase price @ ₹ 50,000 per acre:	2,500.000
Stamp Duty & Registration charges @ 5%	125.000
Legal Fees	5.000
Title Guarantee Insurance	1.500
Demolition Expenses 102.00	
Sale of Salvaged materials (net of Tax) <u>(55.005)</u>	46.995
Cost of Land	(2,678.495)

- (b) As per para 13 of AS 11 (Revised 2003) 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or expenses in the period in which they arise. Thus exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are recognized as income or expense.

Calculation of Exchange Difference:

$$\text{Foreign currency loan} = \frac{\text{₹ 3,000 lakhs}}{\text{₹ 40}} = 75 \text{ lakhs US Dollars}$$

$$\begin{aligned} \text{Exchange difference} &= 75 \text{ lakhs US Dollars} \times (42.50 - 40.00) \\ &= \text{₹ 187.50 lakhs} \end{aligned}$$

(including exchange loss on payment of first instalment)

Therefore, entire loss due to exchange differences amounting ₹ 187.50 lakhs should be charged to profit and loss account for the year.

- (c) As per para 8 of AS 12 'Accounting for Government Grants', two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives.

According to the first alternative, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Therefore, on the basis of this alternative, the cost of special purpose machinery will be recorded in the books after reducing it by the amount of government subsidy of ₹ 25 lakhs. Thus the depreciable value of the machinery recorded in the books will be ₹ 75 lakhs (i.e. ₹ 1 crore – ₹ 25 lakhs). Depreciation of ₹ 9.375 lakhs (i.e. ₹ 75 lakhs / 8 years) will be charged on it every year on straight line method.

Under the second alternative, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged.

Accordingly, machinery will be recorded in the books by ₹ 1 crore and depreciation will be charged on it for ₹ 12.5 lakhs (i.e. ₹ 1 crore / 8 years) per year on straight line method. Government subsidy of ₹ 25 lakhs will be treated as deferred income which will be recognized as income in the statement of profit and loss every year by ₹ 3.125 lakhs (i.e. ₹ 25 lakhs / 8 years).

- (d) Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On this basis, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the

carrying amount of long term investment to ₹ 80,000 in the financial statements for the year ended 31st March, 2010.

- (e) According to para 19 of AS 16 'Borrowing Costs', capitalisation of borrowing costs should cease when substantially all the activities to prepare the qualifying asset for its intended use or sale are completed.

In the given case, since the qualifying asset was ready to use in January, 2011, therefore, interest till that date can only be capitalized. Hence, interest of ₹ 18 lakhs will only be capitalized. The balance of ₹ 7 lakhs (i.e. 25-18) will be debited to Profit and Loss Account.

20. (a) (i) Computation of annual lease payment to the lessor

	₹
Cost of equipment	10,00,000
Unguaranteed residual value	1,00,000
Present value of residual value after third year @ 10% (₹ 1,00,000 × 0.7513)	75,130
Fair value to be recovered from lease payments (₹ 10,00,000 – ₹ 75,130)	9,24,870
Present value of annuity for three years is 2.4868	
Annual lease payment = ₹ 9,24,870 / 2.4868	3,71,911.70

The present value of lease payment i.e., ₹ 9,24,870 equals 92.48% of the fair market value i.e., ₹ 10,00,000. As the present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) covers the major part of the life of asset (i.e. 5 years). Therefore, it constitutes a finance lease.

- (ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 3,71,911.70 × 3)	11,15,735
Add: Unguaranteed residual value	<u>1,00,000</u>
Gross investment in the lease	12,15,735
Less: Present value of investment (lease payments and residual value) (₹ 75,130 + ₹ 9,24,870)	<u>(10,00,000)</u>
Unearned finance income	<u>2,15,735</u>

- (b) As per para 58 of AS 26 'Intangible assets', expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date.

Hence, AIIMS cannot capitalize ₹ 4 crores, which was spent and charged as an expense in the earlier years.

- (c) Computation of weighted average number of shares outstanding during the period

Date	No. of equity shares	Period outstanding	Weights (months)	Weighted average number of shares
(1)	(2)	(3)	(4)	(5) = (2) x (4)
1 st April, 2009	1,500 (Opening)	12 months	12/12	1,500
1 st August, 2009	600 (Additional issue)	8 months	8/12	400
31 st March, 2010	500 (Buy back)	0 months	0/12	-
Total				1,900

$$\begin{aligned}
 \text{Basic Earnings Per Share} &= \frac{\text{Net Profit or Loss for the period attributable to Equity Shareholders}}{\text{Weighted Average Number of Equity Shares outstanding during the period}} \\
 &= \frac{\text{₹ 2,75,000}}{1,900 \text{ shares}} = \text{₹ 144.74}
 \end{aligned}$$

- (d) A provision should be recognised only when an enterprise has a present obligation as a result of a past event. In the given case, there is no present obligation, therefore no provision is recognized as per AS 29 'Provisions, Contingent Liabilities and Contingent Assets'.

The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprises can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

Appendix

Announcements and Notifications applicable for November, 2011 examination

1. Limited Revisions due to Issuance of AS 30 and 31

As per the announcement issued by the Accounting Standard Board of the ICAI regarding applicability of AS 30 (dated 11th February, 2011) in respect of the financial statements, it has been clarified that to the extent of accounting treatments covered by any of the existing notified accounting standards (for eg. AS 11, AS 13 etc.) the existing notified accounting standards would continue to prevail over AS 30.

2. Schedule XIII of the Companies Act 1956 being amended- Unlisted Companies shall not require Government Approval for Managerial Remuneration where they have no Profits

The Ministry of Corporate Affairs issued a notification on Managerial Remuneration in unlisted companies having no profits/inadequate profits.

In the case of unlisted companies so long as the conditions specified in Schedule XIII, including special resolution of shareholders and absence of default on payment to creditors, are fulfilled approval will not be needed hereafter. Accordingly, Schedule XIII of the Companies Act 1956 is being amended to provide that unlisted companies (which are not subsidiaries of listed companies) shall not require Government approval for managerial remuneration in cases where they have no profits/ inadequate profits, provided they meet the other conditions stipulated in the Schedule.

3. Amendment to Accounting Standard 11 of Companies (Accounting Standards) Rules, 2006

Ministry of Corporate Affairs vide its notification number G.S.R. (E) has partially amended the notification number GSR No. 225(E) dated 31.03.2009. Through this notification, the MCA has extended the option (for the enterprises) to capitalize the exchange differences arising on reporting of long term foreign currency monetary items till 31st March 2012 instead of 31st March 2011.

4. Sale of Investments held under Held to Maturity (HTM) category

Securities acquired by banks with the intention to hold them up to maturity may be classified under Held to Maturity (HTM) category. Banks are, however, allowed to shift investments to/from HTM with the approval of the Board of Directors once a year. Such shifting is normally allowed at the beginning of the accounting year and no further shifting to/from HTM is allowed during the remaining part of that accounting year. However, securities under HTM category are intended to be held till maturity and accordingly are not required to be marked to market.

RBI has decided vide a notification that if the value of sales and transfers of securities to/from HTM category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year, bank should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value for which provision is not made. This disclosure is required to be made in 'Notes to Accounts' in banks' audited Annual Financial Statements.

Note: Accounting Standards 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 16, 19, 20, 26, 29 are covered in the syllabus.

Non- applicability of Announcements and Notifications for November, 2011 examination

1. The MCA has issued 35 converged Indian Accounting Standards (Ind AS) without announcing the applicability date. These are the standards which are being converged by eliminating the differences of the Indian Accounting Standards vis-à-vis IFRS. These standards shall be applied for all companies falling under Phase I to Phase III as prescribed under the roadmap issued by the core group. These Ind ASs are not applicable for the students appearing in November, 2011 Examination.

2. Enhancement of Rates of Provisioning for Non-Performing Assets and Restructured Advances

RBI vide its notification RBI 2010-11/529 DBOD.No.BP.BC. 94/21.04.048/2011-12 dated May 18, 2011 has revised provisioning requirements for the following categories of non-performing advances and restructured advances for all Scheduled Commercial Banks (Excluding RRBs) as under:

1. **Sub-Standard Advances :** Advances classified as “sub-standard” will attract a provision of 15 per cent as against the existing 10 per cent. The “unsecured exposures” classified as sub-standard assets will attract an additional provision of 10 per cent, *i.e.*, a total of 25 per cent as against the existing 20 per cent. However, “unsecured exposures” in respect of Infrastructure loan accounts classified as sub-standard, in case of which certain safeguards such as escrow accounts are available will attract an additional provision of 5 per cent only *i.e.* a total of 20 per cent as against the existing 15 per cent.
2. **Doubtful Advances :** Doubtful Advances will continue to attract 100% provision to the extent the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis. However, in respect of the secured portion, following provisioning requirements will be applicable:
 - (i) The secured portion of advances which have remained in “doubtful” category up to one year will attract a provision of 25 per cent (as against the existing 20 per cent);
 - (ii) The secured portion of advances which have remained in “doubtful” category for more than one year but upto 3 years will attract a provision of 40 per cent (as against the existing 30 per cent); and
 - (iii) The secured portion of advances which have remained in “doubtful” category for more than 3 years will continue to attract a provision of 100%.
3. **Restructured Advances:**
 - (i) Restructured accounts classified as standard advances will attract a provision of 2 per cent in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract a provision of 2 per cent for the period covering

moratorium and two years thereafter (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances); and

- (ii) Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2 per cent in the first year from the date of upgradation (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances).
4. All other instructions on provisioning will remain unchanged.

Rates of Provisioning for Non-Performing Assets and Restructured Advances are summarized as follows:

Category of Advances	Existing Rate (%)	Revised Rate (%)
Sub- standard Advances		
· Secured Exposures	10	15
· Unsecured Exposures	20	25
· Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available.	15	20
Doubtful Advances – Unsecured Portion	100	100
Doubtful Advances – Secured Portion		
· For Doubtful upto 1 year	20	25
· For Doubtful > 1 year and upto 3 years	30	40
· For Doubtful > 3 years	100	100
Loss Advances	100	100
Restructured accounts classified as standard advances in the first two years from the date of restructuring; and in cases of moratorium on payment of interest/principal after restructuring – period covering moratorium and two years thereafter.	0.25 to 1.00 (depending upon the category of advance)	2
Restructured accounts earlier classified as NPA and later upgraded to standard category in the first year from the date of upgradation	0.25 to 1.00 (depending upon the category of advance)	2

3. Non-applicability of Revised Schedule VI for November 2011 Examination

This is to bring to the attention of students that a decision has been taken to defer the applicability of the Revised Schedule VI for CA examination, consequent to which the same will not be applicable for PCC examinations to be held in November, 2011.