

MOCK TEST PAPER - 1
IPCC : GROUP – I
PAPER – 1: ACCOUNTING
SUGGESTED ANSWERS/HINTS

1. (a) Accounting Standard 2 “Valuation of Inventories” states that inventories should be valued at lower of historical cost and net realisable value. AS 9 on “Revenue Recognition” states, “at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at net-realizable value.”

Bedsheets do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realizable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

- (b) As it is stated in the question that financial statements for the year ended 31st March, 2011 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

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 these bases, 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 ₹ 20,000 in the financial statements for the year ended 31st March, 2011.

- (c) As per para 12.1 of AS 10 “Accounting for Fixed Assets” expenditure that increases the future benefits from the existing assets, is included in the gross book value.

Hence, in the given case, repairs of ₹ 2.50 lacs and partial replacement of the part of the machinery should be charged to Profit & Loss Account. ₹ 7 lacs incurred on a part of the machinery, which will increase the efficiency, should be capitalized.

- (d) The company should disclose the change in method of depreciation adopted for the accounting year. The impact on depreciation charge due to change in method must be quantified and reported by the enterprise.

Following aspects may be noted in this regard as per AS 6 on 'Depreciation Accounting'.

- (a) The depreciation method selected should be applied consistently from period to period.
- (b) A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by the statute or for compliance with an accounting standard if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise.

2. (a) **Loss to be borne by Equity and Preference Shareholders**

	₹
Profit and loss account (debit balance)	7,00,000
Goodwill	3,00,000
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>

(b)

	₹	₹
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>

(c) New structure of share capital after reorganisation

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)	<u>8,00,000</u>
	<u>17,00,000</u>

(d) Working capital of the reorganized company

Current Assets:	₹	₹
Stock		3,00,000
Debtors		4,00,000
Cash		<u>1,50,000</u>
		8,50,000
Less: Current liabilities:		
Creditors	3,50,000	
Bank overdraft **	<u>75,000</u>	<u>4,25,000</u>
Working capital		<u>4,25,000</u>

**(e) Balance Sheet of Sumit Ltd. (and reduced)
as on 31st March, 2011**

Liabilities	₹	Assets	₹
Authorised, issued and paid up share capital		Fixed Assets	
20,000 equity shares of ₹45 each	9,00,000	Plant and Machinery	15,00,000
10,000, 9% preference shares of ₹80 each	8,00,000	Current Assets	
Unsecured loan		Stock	3,00,000
Term loan with Bank	2,25,000	Debtors	4,00,000
Current liabilities		Cash	1,50,000
Bank overdraft	75,000		
Creditors	<u>3,50,000</u>		
	<u>23,50,000</u>		<u>23,50,000</u>

** Current ratio shall be 2 : 1, i.e. total current liabilities shall be 50% of ₹8,50,000 (i.e. ₹3,00,000 + 4,00,000 + 1,50,000) = ₹4,25,000. Therefore, Bank overdraft = ₹75,000 (₹4,25,000 less creditors ₹3,50,000).

3. (a)

In the books of Mr. Mohan
8% Bond Account

Date	Particulars	Nominal Value ₹	Income ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Income ₹	Cost ₹
2010 April 1	To Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	2010 May 1	By Bank A/c (W.N.2)	--	48,000	---
2011 Mar. 31	To Profit & Loss A/c : Int. income		84,000		Oct. 1	By Bank A/c (W.N.4)	3,00,000	10,000	2,43,000
	Profit on Sale			11,500	Nov. 1	By Bank A/c (W.N.5)	---	36,000	---
		<u>12,00,000</u>	<u>1,24,000</u>	<u>9,37,500</u>	Mar. 31	By Balance c/d (W.N.7 & 8)	<u>9,00,000</u>	<u>30,000</u>	<u>6,94,500</u>
							<u>12,00,000</u>	<u>1,24,000</u>	<u>9,37,500</u>

Equity Shares in X Ltd.

	Particulars	Nominal Value ₹	Income ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Income ₹	Cost ₹
2010 April 12	To Bank A/c	10,00,000	-	40,00,000	2010 May 15	By Bank A/c	12,50,000	---	25,00,000
May 15	To Bonus Issue A/c (W.N.3)	15,00,000	---	---	Dec. 1	By Bank (Dividend) (W.N.6)	----	2,25,000	----
2011 Mar. 31	To Profit & Loss A/c: Dividend	---	2,25,000	----	2011 Mar. 31	By Balance c/d (W.N.9)	12,50,000	----	20,00,000
	Profit on Sale (W.N.10)	---	----	5,00,000					
		<u>25,00,000</u>	<u>2,25,000</u>	<u>45,00,000</u>			<u>25,00,000</u>	<u>2,25,000</u>	<u>45,00,000</u>

Working Notes:

1. Cum interest purchased cost of 8% Bond = $\frac{₹12,00,000}{100} \times 80.50 = ₹9,66,000$
 Less: Interest portion $\frac{₹12,00,000}{100} \times 8\% \times \frac{5}{12} = ₹40,000$
 Ex-interest cost ₹9,26,000
2. Half yearly interest on 8% bond as on 1st May, 2010
 = ₹12,00,000 x 8% x 6/12 = ₹48,000
3. Bonus issue of equity shares of X Ltd. = 1,00,000/2 x 3 x 10 = ₹15,00,000
4. Sales value = 3,00,000/100 x 81 = ₹2,43,000
5. Half yearly interest on 8% bond as on 1st November, 2010
 = (12,00,000 - 3,00,000) x 8% x 6/12 = ₹36,000
6. Dividend on equity shares of X Ltd.
 = (10,00,000 + 15,00,000 - 12,50,000) x 18% = ₹2,25,000
7. Accrued interest = 9,00,000 x 8% x 5/12 = 30,000
8. Closing balance of 8% bond 9,26,000/12,00,000 x 9,00,000 = 6,94,500
9. Closing balance of equity shares of X Ltd.
 [40,00,000/(10,00,000+15,00,000)] x 12,50,000 = ₹20,00,000
10. Profit on sale of equity shares of X Ltd.
 Sales value ₹25,00,000
 Less: Cost [40,00,000/(10,00,000+15,00,000)] x 12,50,000 ₹20,00,000
₹5,00,000

(b) Cash Flow Statement

<i>Cash flows from operating activities:</i>		(₹in lacs)
Net Profit		60,000
Less: Exchange gain		<u>(8,000)</u>
		52,000
Less: Profit on sale of investments		<u>(12,000)</u>
		40,000
Add: Depreciation on Assets		<u>11,000</u>
Change in current assets and current liabilities		51,000

Less: Increase in Debtors	(8,000)	
Add: Decrease in Stock	12,000	
Less: Decrease in creditors	<u>(6,000)</u>	<u>(2,000)</u>
Net cash generated from Operating activities (A)		49,000
<i>Cash flows from Investing activities:</i>		
Sale of Investments	70,000	
Less: Purchase of Fixed Assets	<u>(65,000)</u>	
Net cash generated from Investing activities (B)		5,000
<i>Cash flows from Financing activities:</i>		
Issue of preference shares	9,000	
Add: Loan raised	<u>4,500</u>	
	13,500	
Less: Redemption of Debentures	<u>(5,700)</u>	
	7,800	
Less: Interest paid	<u>(945)</u>	
	6,855	
Less: Dividend paid	<u>(1,400)</u>	
Net cash generated from Financing activities (C)		<u>5,455</u>
Net increase in Cash & Cash Equivalents		59,455
Add: Opening cash and cash equivalents		<u>12,341</u>
Closing cash and cash equivalents		<u>71,796</u>

4. (i) **Revaluation Account**

	₹		₹
To Building	50,000	By Investments	15,000
To Machinery	1,30,000	By Partners' capital A/cs (Loss on revaluation)	
To Provision for doubtful debts	1,39,000	M 1,52,000	
		N 91,200	
		O <u>60,800</u>	<u>3,04,000</u>
	<u>3,19,000</u>		<u>3,19,000</u>

(ii) **Partners' Capital Accounts**

	M	N	O	P		M	N	O	P
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	1,52,000	91,200	60,800	-	By Balance b/d	4,50,000	1,30,000	1,70,000	-
To Goodwill (W.N.2)	50,000	30,000	20,000	-	By Contingency Reserve	37,500	22,500	15,000	-
To A and B (W.N.3)	-	-	1,00,000	1,00,000	By Investment fluctuation Reserve	50,000	30,000	20,000	-
To Investments	-	75,000	-	-					
To Advertisement suspense	12,500	7,500	5,000	-	By O and P (W.N.3)	50,000	1,50,000	-	-
To B's Loan A/c (Bal. fig.)	-	1,28,800	-	-	By Bank (Bal. fig.)	27,000	-	3,80,800	3,00,000
To Balance c/d (W.N.4)	<u>4,00,000</u>	<u>-</u>	<u>4,00,000</u>	<u>2,00,000</u>					
	<u>6,14,500</u>	<u>3,32,500</u>	<u>5,85,800</u>	<u>3,00,000</u>		<u>6,14,500</u>	<u>3,32,500</u>	<u>5,85,800</u>	<u>3,00,000</u>

(iii) **Balance Sheet as at 01.04.2011**
(After retirement of N and admission of P)

Liabilities	₹	Assets		₹
Partners' capital accounts (W.N.4)		Building		10,00,000
M	4,00,000	Machinery		5,20,000
N	4,00,000	Furniture		2,15,000
P	2,00,000	Stock		6,50,000
Long term loan	15,00,000	Debtors	6,95,000	
O's loan	1,28,800	Less: Provision for doubtful debts	<u>1,39,000</u>	5,56,000
Sundry creditors	<u>8,00,000</u>	Cash at bank (W.N.1)		<u>4,87,800</u>
	<u>34,28,800</u>			<u>34,28,800</u>

Working Notes:

1. Bank Account

	₹		₹
To M's capital A/c	27,000	By Balance b/d (Overdraft)	2,20,000
To O's capital A/c	3,80,800	By Balance c/d	

To	P's capital A/c	<u>3,00,000</u>	(Bal. fig.)	4,87,800
		<u>7,07,800</u>		<u>7,07,800</u>

2. Goodwill, already shown in the Balance Sheet of ₹1,00,000, is firstly written off and then an adjusting entry is passed for revalued goodwill of ₹5,00,000 in sacrificing and gaining ratio of partners. This treatment is given based on the para 36 of AS 10, which states that goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it.

3. Calculation of sacrificing and gaining ratio

Partners	New share	Old share	Share Sacrificed	Share Gained
M	$\frac{2}{5}$	$\frac{5}{10}$	$\frac{2}{5} - \frac{5}{10} =$	$\frac{1}{10}$
N		$\frac{3}{10}$		$\frac{3}{10}$
O	$\frac{2}{5}$	$\frac{2}{10}$		$\frac{2}{5} - \frac{2}{10}$
P	$\frac{1}{5}$			$\frac{1}{5}$

Adjusting Entry

		₹	₹
O's Capital A/c	Dr.	1,00,000	
P's Capital A/c	Dr.	1,00,000	
To M's Capital A/c			50,000
To N's Capital A/c			1,50,000

4. Capitals of M, O and P as per new ratio

		₹
Total Capital of the firm after admission		<u>10,00,000</u>
M's share =	$10,00,000 \times \frac{2}{5}$	4,00,000
O's share =	$10,00,000 \times \frac{2}{5}$	4,00,000
P's share =	$10,00,000 \times \frac{1}{5}$	2,00,000

**5. Income and Expenditure Account of Aman club
for the year ended 31st March, 2011**

<i>Expenditure</i>	<i>Amount (₹)</i>	<i>Income</i>	<i>Amount (₹)</i>
To Salaries (W.N.8)	1,28,000	By Subscriptions (W.N.2)	1,94,750
To Printing and stationery	70,000	By Entrance donation (W.N.3)	90,000
To Postage	40,000	By Interest (W.N.4)	60,000
To Telephone & fax	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations (W.N.6)	92,000
To Glass and table linen	12,000	By Excess of expenditure over income transferred to capital fund (deficit)	30,250
To Crockery and cutlery	14,000		
To Garden upkeep	8,000		
To Membership fee	4,000		
To Insurance (W.N.5)	6,000		
To Electricity charges (W.N.8)	43,000		
To Loss on sale of assets (10,000 – 8,000)	2,000		
To Depreciation (W.N.9)	<u>49,000</u>		
	<u>4,76,000</u>		<u>4,76,000</u>

Balance Sheet of Nanoo Club as on 31st March, 2011

<i>Liabilities</i>	<i>Amount (₹)</i>	<i>Assets</i>	<i>Amount (₹)</i>
Capital fund(W.N.10)	10,89,600	Fixed assets (W.N.9)	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors (W.N.7)	92,000	Investments in 12% Government securities	5,00,000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued (W.N.4)	2,000
Outstanding salary	8,000	Bank	2,24,600
Outstanding electricity charges	15,000	Cash	<u>8,000</u>
	<u>13,92,600</u>		<u>13,92,600</u>

Working Notes:

(1)

Opening Balance Sheet**as on 1st April, 2010**

<i>Liabilities</i>	<i>Amount (₹)</i>	<i>Assets</i>	<i>Amount (₹)</i>
Capital fund (Bal.Fig.)	10,29,850	Fixed assets	5,00,000
Sundry creditors	1,12,000	Stock	3,80,000
Subscription received in advance	15,000	Investment in 12% Government securities	5,00,000
Entrance donation received in advance (pending membership)	1,00,000	Subscription outstanding	12,000
Gratuity fund	1,50,000	Prepaid insurance	1,000
		Cash	10,000
		Bank	<u>3,850</u>
	<u>14,06,850</u>		<u>14,06,850</u>

(2) Subscription	₹
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2011	7,000
Add: Received in advance as on 1.4.2010	<u>15,000</u>
	2,24,750
Less: Outstanding subscription as on 1.4.2010	(12,000)
Less: Received in advance as on 31.3.2011	<u>(18,000)</u>
	<u>1,94,750</u>
(3) Entrance Donation	₹
Entrance Donation received during the year	1,00,000
Add: Received in Advance as on 1.4.2010	<u>1,00,000</u>
	2,00,000
Less: Refundable to Ineligible Member	<u>20,000</u>
	1,80,000
Less: 50% Capitalized	<u>90,000</u>
	<u>90,000</u>

(4)	Interest received		₹
	Interest on ₹ 5,00,000 @ 12% p.a.		60,000
	Less: Interest received during the year		<u>58,000</u>
	Interest accrued as on 31.3.2011		<u>2,000</u>
	Interest credited to Income and Expenditure A/c		<u>60,000</u>
(5)	Insurance		₹
	Insurance paid during the year		5,000
	Add: Prepaid Insurance as on 1.4.2010		<u>1,000</u>
			<u>6,000</u>
(6)	Profit from Operations		₹
	<u>Cost of Goods sold</u>		
	Opening Stock as on 1.4.2010		3,80,000
	Add: Purchases		<u>15,00,000</u>
			18,80,000
	Less: Closing Stock		<u>2,10,000</u>
	Cost of Goods Sold (A)		<u>16,70,000</u>
	<u>Receipts from operations</u>		
	Receipts from Coffee Room		10,70,000
	Receipts from Wines & Sprits		5,10,000
	Receipts from Swimming Pool		80,000
	Receipts from Tennis Court		<u>1,02,000</u>
	Total of Receipts (B)		<u>17,62,000</u>
	Profit from Operations (B-A)		<u>92,000</u>
(7)	Sundry Creditors		₹
	Opening Balance as on 1.4.2010		1,12,000
	Add: Purchases made during the year		<u>15,00,000</u>
			16,12,000
	Less: Payment made during the year		<u>15,20,000</u>
	Closing Balance as on 31.3.2011		<u>92,000</u>
(8)	(a) Salary		₹
	Salary paid as on 31.3.2011	1,20,000	
	Add: Outstanding Salary as on 31.3.2011	<u>8,000</u>	<u>1,28,000</u>

(b)	Electricity charges	28,000	
Add:	Outstanding Electricity charges as on 31.3.2011	<u>15,000</u>	<u>43,000</u>
(9)	Fixed Assets		
	Fixed Assets as per Trial Balance		5,00,000
	Less: W.D.V. of Assets sold		<u>10,000</u>
			4,90,000
	Less: Depreciation @ 10% on ₹ 4,90,000		<u>49,000</u>
	Fixed Assets as on 31.3.2011		<u>4,41,000</u>
(10)	Capital fund		₹
	Capital fund as on 31.3.2010		10,29,850
	Add: Entrance donation capitalized		<u>90,000</u>
			11,19,850
	Less: Deficit		<u>30,250</u>
			<u>10,89,600</u>

6. (a)

**In the books of Rajat Ltd.
Hire Purchase Trading Account
for the year ended on 31st March, 2011**

		₹			₹
To	Hire Purchase Stock	3,20,000	By	Hire Purchase Stock Reserve (W.N.1)	1,20,000
To	Instalments due	20,000	By	Bank A/c (Cash received)	11,20,000
To	Goods sold on Hire Purchase	16,00,000	By	Goods Repossessed A/c	16,000
To	Hire Purchase Stock Reserve (W.N.3)	2,70,000	By	Goods sold on hire purchase (loading) (W.N.2)	6,00,000
To	Profit and Loss A/c (balancing figure)	4,26,000	By	Hire purchase stock	7,20,000
		<u>26,36,000</u>	By	Instalments due (W.N.4)	<u>60,000</u>
					<u>26,36,000</u>

Working Notes:

1. Opening H.P. Stock reserve	$3,20,000 \times \frac{60}{160}$	₹ 1,20,000
2. Loading on goods sold on H.P.	$16,00,000 \times \frac{60}{160}$	6,00,000
3. Closing H.P. Stock reserve	$7,20,000 \times \frac{60}{160}$	2,70,000

4. Calculation of Instalments due at the end of the year

Opening H.P. Stock + Opening Instalments due + H.P. Sales during the year (i.e. 3,20,000 + 20,000 + 16,00,000) 19,40,000

Less: Cash received from customers	11,20,000	
Instalments unpaid for repossessed goods	40,000	
Closing balance of H.P. Stock	<u>7,20,000</u>	<u>18,80,000</u>
Closing Instalments Due		<u>60,000</u>

(b)

In the books of Mr. White
Trading Account for the year ended 31.3.2011

		₹			₹
To	Opening Stock	1,35,000	By	Sales	9,00,000
To	Purchases	6,45,000	By	Closing Stock at cost	1,80,000
To	Gross Profit	3,00,000			
		<u>10,80,000</u>			<u>10,80,000</u>
Memorandum Trading A/c for the period from 1.4.2011 to 02.06.2011					
To	Opening Stock at cost	1,80,000	By	Sales	4,80,000
To	Purchases	2,25,000		Less: Goods not dispatched	<u>75,000</u>
	Add: Goods received but invoice not received	<u>30,000</u>	By	Closing stock (Balancing)	1,50,000

		2,55,000			figure)	
	Less: Machinery	<u>15,000</u>	2,40,000			
To	Gross Profit (Refer working note)	<u>1,35,000</u>				
		<u>5,55,000</u>				<u>5,55,000</u>

Calculation of Insurance Claim

Claim subject to average clause = Actual loss of stock x Amount of Policy / Value of stock on the date of fire

$$= 1,50,000 * \frac{4,20,000}{1,50,000} = ₹ 1,20,000$$

Working Note:

$$\text{G.P. ratio} = \frac{3,00,000}{9,00,000} \times 100 = 33 \frac{1}{3} \%$$

$$\text{Amount of Gross Profit} = ₹ 4,05,000 \times 33 \frac{1}{3} \% = ₹ 1,35,000.$$

7. (a) Calculation of Average Due Date (taking base date as 12th July, 2011)

Date	Due date including days of grace	Amount (₹)	No. of Days from July 12	Products (₹)	Remarks
1.6.11	4.9.11	9,000	54	4,86,000	Bills Receivable
5.6.11	8.9.11	7,500	58	4,35,000	
9.6.11	12.7.11	10,000	0	0	
12.6.11	14.8.11	8,000	33	2,64,000	
20.6.11	23.9.11	<u>12,000</u>	73	<u>8,76,000</u>	
		<u>46,500</u>		<u>20,61,000</u>	
29.5.11	1.8.11	6,000	20	1,20,000	Bills Payable
3.6.11	5.9.11	9,000	55	4,95,000	
10.6.11	13.8.11	10,000	32	3,20,000	
13.6.11	14.8.11	7,000	33	2,31,000	
27.6.11	30.7.11	<u>11,000</u>	18	<u>1,98,000</u>	
		<u>43,000</u>		<u>13,64,000</u>	

* Salvaged stock amounting Rs.22,500 handed over to the insurance company is also a loss to Mr. White.

Difference of Products	=	₹20,61,000 – ₹13,64,000 = ₹6,97,000
Difference of Amount	=	₹46,500 – ₹43,000 = ₹3,500
Average Due Date	=	Base Date + $\frac{\text{Difference of Products}}{\text{Difference of Amount}}$
	=	July 12 + $\frac{6,97,000}{3,500}$
	=	July 12 + 199.14 or 199 days
	=	27 th January, 2012

Note:

- (i) B/R of 12.6.11 Due date changed due to holidays
- (ii) B/P of 3.6.11 Due date changed due to holidays
- (iii) B/P of 13.6.11 Due date changed due to holidays

- (b) As per para 12 of AS 9 'Revenue Recognition', 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 relates the revenue to the work accomplished. Further, appendix to AS 9 states that revenue from advertising should be recognized when the service is completed. The service as regards advertisement is deemed to be completed when the related advertisement appears before the public.

In the given problem, 40% of the advertisement appeared before the public in November, 2011 and balance 60% in December, 2011.

Total profit will be computed as follows:

	₹ in lakhs
Advertisement for 70% of available time obtained by 30 th September, 2011	700
Advertisement for 30% of available time obtained by October, 2011	<u>240</u>
Total	940
Less: Cost of advertisement rights	<u>(520)</u>
Profit	<u>420</u>

The profit amounting ₹ 420 lakhs should be apportioned in the ratio of 40:60 for the months of November and December, 2011. Thus, the company should recognise ₹ 168 lakhs (i.e. ₹ 420 lakhs x 40%) in November, 11 and rest ₹ 252 lakhs (i.e. ₹ 420 lakhs x 60%) in December, 2009

(c) The proposals will be evaluated and vendor will be selected considering the following criteria:

1. Quantum of services provided and whether the same matches with the requirements of the hospital.
2. Reputation and background of the vendor.
3. Comparative costs of the various propositions.
4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
5. Assurance of quality, confidentiality and secrecy.
6. Data storage and processing facilities.

(d) For a company under liquidation, the fundamental accounting assumption of "going concern" is apparently not valid. The assets and liabilities would stand appropriately adjusted to reflect the realizable value, by way of carrying amounts. This information will be required to be disclosed by the company under AS 1 on Disclosure of Accounting Policies.

(e) (i) Amount of foreseeable loss (₹ in lakhs)

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

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

	(₹ in lakhs)
(ii) Contract work-in-progress i.e. cost incurred to date are ₹605 lakhs	
Work certified	500
Work not certified	<u>105</u>
	<u>605</u>
This is 55% (605/1,100 × 100) of total costs of construction.	

(iii) Proportion of total contract value recognised as revenue as per para 21 of AS 7 (Revised).

$$55\% \text{ of ₹1,000 lakhs} = ₹550 \text{ lakhs}$$

(iv) Amount due from/to customers = Contract costs + Recognised profits – Recognised losses – (Progress payments received + Progress payments to be received)

$$= [605 + \text{Nil} - 100 - (400 + 140)] \text{ ₹in lakhs}$$

$$= [605 - 100 - 540] \text{ ₹in lakhs}$$

Amount due to customers = ₹35 lakhs

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