

MOCK TEST PAPER - 2

PCC : GROUP – I

PAPER – 1: ADVANCED ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) As per AS 9 "Revenue Recognition", where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty inverted. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made.

In this case, the company never realized interest for the delayed payments made by the dealers. Hence, it has to recognize the interest only if the ultimate collection is certain. The interest income hence is not to be recognized.

- (b) The transfers should be made at lower of (a) Cost, and (b) Fair value at the date of transfer.

1. In this case, the transfer should be made at cost (being lower of ₹ 20 lakhs and ₹ 25 lakhs) and hence the long term investments should be carried at ₹ 20 lakhs.
2. In the second case, the transfer should be made at Market Value (being lower of ₹ 15 lakhs and ₹ 6.5 lakhs) and hence the long term investments should be carried at ₹ 6.50 lakhs. The loss of ₹ 15 – ₹ 6.5 = ₹ 8.5 lakhs should be provided for in the profit and loss account.
3. Here, the transfer should be made at carrying amount (being lower of ₹ 18 lakhs and ₹ 12 lakhs) and hence these reclassified current investments should be carried at ₹ 12 lakhs.

- (c) According to AS 29 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied:

- (i) There is a present obligation arising out of past events but not recognized as provision.
- (ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- (iii) The possibility of an outflow of resources embodying economic benefits is also remote.
- (iv) The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision.

In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 60% and for remaining five cases is 50%. As per AS 29, we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is not remote rather there is reasonable possibility of loss, therefore disclosure by way of note should be made. For the purpose of the disclosure of contingent liability by way of note, amount may be calculated as under:

$$\begin{aligned}\text{Expected loss in next ten cases} &= 30\% \text{ of ₹ } 1,20,000 + 10\% \text{ of ₹ } 2,00,000 \\ &= ₹ 36,000 + ₹ 20,000 \\ &= ₹ 56,000\end{aligned}$$

$$\begin{aligned}\text{Expected loss in remaining five cases} &= 30\% \text{ of ₹ } 1,00,000 + 20\% \text{ of ₹ } 2,10,000 \\ &= ₹ 30,000 + ₹ 42,000 \\ &= ₹ 72,000\end{aligned}$$

To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of ₹ 9,20,000 (₹ 56,000 × 10 + ₹ 72,000 × 5) as contingent liability.

- (d) As per para 10 of AS 12 'Accounting for Government Grants', where the government grants are of the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue. Thus it is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to capital reserve. Therefore, the accounting treatment followed by the company is not proper.

2. (i) Journal Entries (on admission of partners)

Date	Particulars	Debit (₹)	Credit (₹)
1 st April, 2011	X's capital A/c Dr.	20,000	
	Y's capital A/c Dr.	20,000	
	Z's capital A/c Dr.	20,000	

	To P's capital A/c		20,000
	To Q's capital A/c		20,000
	To R's capital A/c		20,000
	(Being goodwill adjusted through capital accounts)		
	Bank A/c Dr.	2,10,000	
	To X's capital A/c (20,000 + 50,000)		70,000
	To Y's capital A/c (20,000 + 50,000)		70,000
	To Z's capital A/c (20,000 + 50,000)		70,000
	(Being goodwill and capital brought in by new partners)		
	Bank A/c Dr.	1,50,000	
	To P's capital A/c		50,000
	To Q's capital A/c		50,000
	To R's capital A/c		50,000
	(Being capital brought in by existing partners)		

(ii)

Profit & Loss Account
for the year ended 31st March, 2012

Particulars	(₹)	Particulars	(₹)
To Medicines, injections and other consumables	1,00,000	By Visiting fee	2,75,000
To Printing and stationery	5,000	By Chamber fee	6,65,000
To Telephone expenses	5,000	By Fee for report, operation etc.	4,75,000
To Rent	42,000		
To Power and light	10,000		
To Nurses salary	20,000		
To Attendants wages	20,000		
To Depreciation			
X-ray machine 15,000			
ECG equipment 5,000			
Furniture 5,000			
Surgical equipment <u>5,000</u>	30,000		

To Interest on capital (W.N.3)	39,600		
To Net profit transferred to partners' capital accounts	<u>11,43,400</u>		<u> </u>
	<u>14,15,000</u>		<u>14,15,000</u>

(iii) **Partners' Capital Accounts**
for the year ended 31st March, 2012

Debit side

Particulars	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
To P, Q & R A/cs (Goodwill)	-	-	-	20,000	20,000	20,000
To Balance c/d	<u>4,56,600</u>	<u>3,96,600</u>	<u>3,31,600</u>	<u>2,69,400</u>	<u>1,64,400</u>	<u>2,24,400</u>
	<u>4,56,600</u>	<u>3,96,600</u>	<u>3,31,600</u>	<u>2,69,400</u>	<u>1,64,400</u>	<u>2,24,400</u>

Credit side

Particulars	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
By Balance b/d	1,00,000	1,00,000	1,00,000	-	-	-
By X, Y & Z A/cs (Goodwill)	20,000	20,000	20,000	-	-	-
By Bank	50,000	50,000	50,000	70,000	70,000	70,000
By Interest on capital (W.N.3)	10,200	10,200	10,200	3,000	3,000	3,000
By Fee (share) (W.N.1)	2,05,000	1,45,000	80,000	1,45,000	40,000	1,00,000
By Profit (share) (W.N.2)	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>
	<u>4,56,600</u>	<u>3,96,600</u>	<u>3,31,600</u>	<u>2,89,400</u>	<u>1,84,400</u>	<u>2,44,400</u>

Working Notes:

1. **Statement showing distribution of fee among partners**

Partner's Name	Visiting fee (70%) (₹)	Chamber fee (50%) (₹)	Operation fee (40%) (₹)	Total (₹)
P	1,05,000	1,00,000	-	2,05,000
Q	17,500	87,500	40,000	1,45,000

R	-	50,000	30,000	80,000
X	70,000	75,000	-	1,45,000
Y	-	-	40,000	40,000
Z	-	20,000	80,000	1,00,000
	<u>1,92,500</u>	<u>3,32,500</u>	<u>1,90,000</u>	<u>7,15,000</u>

2. **Statement showing distribution of profit among partners**

	₹
Profits as per profit and loss account	11,43,400
Less: Fee payable to partners	<u>(7,15,000)</u>
Profit to be divided equally among partners	<u>4,28,400</u>

Share of each partner in remaining profit = ₹ 4,28,400/6 = ₹ 71,400.

3. **Interest on capital employed**

	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
Opening balance	1,00,000	1,00,000	1,00,000	-	-	-
Add: Premium for goodwill shared equally by old partners	20,000	20,000	20,000	-	-	-
Add: Capital brought in cash	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
	<u>1,70,000</u>	<u>1,70,000</u>	<u>1,70,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Interest @ 6%	10,200	10,200	10,200	3,000	3,000	3,000

Total interest = ₹ 39,600.

Note: It is assumed that amount of premium for goodwill brought in by new partners X, Y and Z has not been withdrawn by old partners P, Q and R and it is still kept in the business.

3. **In the Books of Success Ltd.
Debenture Stock Account**

2009		₹	2009		₹
Sept. 30	To Debenture Redemption A/c	1,20,000	Jan. 1	By Balance b/d	10,00,000
Dec. 31	To Balance c/d	<u>8,80,000</u>			
		<u>10,00,000</u>			<u>10,00,000</u>

2010		₹	2010		₹
May 31	To Debenture Redemption A/c	75,000	Jan. 1	By Balance b/d	8,80,000
Dec.31	To Debenture Redemption A/c	25,000			
	To Balance c/d	<u>7,80,000</u>			
		<u>8,80,000</u>			<u>8,80,000</u>
2011		₹	2011		₹
July 31	To Debenture Redemption A/c	1,15,000	Jan. 1	By Balance b/d	7,80,000
Dec.31	To Balance c/d	<u>6,65,000</u>			
		<u>7,80,000</u>			<u>7,80,000</u>

Debenture Redemption Account

2009		₹	2009		₹
Sept. 30	To Bank A/c (₹ 1,20,000×0.98 – ₹ 1,800)	1,15,800	Sept.30	By Debenture Stock A/c	1,20,000
	To Capital Reserve A/c	<u>4,200</u>			
		<u>1,20,000</u>			<u>1,20,000</u>
2010		₹	2010		₹
May 30	To Bank A/c (₹ 75,000 × 0.95)	71,250	May 31	By Debenture Stock A/c	75,000
	To Capital Reserve A/c (Profit on cancellation)	3,750	Dec. 31	By Debenture Stock A/c	25,000
Dec.31	To Bank A/c (Shortfall= ₹1,00,000 – ₹ 75,000)	25,000			
		<u>1,00,000</u>			<u>1,00,000</u>

2011		₹	2011		₹
July 31	To Bank A/c (₹ 1,15,000 × .92 – ₹ 575)	1,05,225	July 31	By Debenture Stock A/c	1,15,000
	To Capital Reserve A/c (Profit on cancellation)	9,775			
		1,15,000			1,15,000

Debenture Interest Account

2009		₹	2009		₹
June 30	To Bank A/c	30,000	Dec. 31	By Profit and Loss A/c	58,200
Sept. 30	To Bank A/c	1,800			
Dec. 31	To Bank A/c	26,400			
		58,200			58,200
2010		₹	2010		₹
May 31	To Bank A/c	1,875	Dec. 31	By Profit and Loss A/c	50,175
June 31	To Bank A/c	24,150			
Dec. 31	To Bank A/c	24,150			
		50,175			50,175
2011		₹	2011		₹
June 30	To Bank A/c	23,400	Dec. 31	By Profit and Loss A/c	43,925
July 31	To Bank A/c	575			
Dec. 31	To Bank A/c	19,950			
		43,925			43,925

Working Notes :

Interest paid on Debentures @ 6% per annum:

<i>Date</i>	<i>Amount of Debentures</i> ₹	<i>Period</i>	<i>Interest</i> ₹
<i>2009</i>			
June 30	10,00,000	6 months	30,000
Sept. 30	1,20,000	3 months	1,800
Dec. 31	8,80,000	6 months	26,400
<i>2010</i>			
May 31	75,000	5 months	1,875
June 30	8,05,000	6 months	24,150
Dec. 31	8,05,000	6 months	24,150
<i>2011</i>			
June 30	7,80,000	6 months	23,400
July 31	1,15,000	1 month	575
Dec. 31	6,65,000	6 months	19,950

Notes :

- (1) It has been assumed that debentures are purchased for immediate cancellation.
- (2) The purchases of 30th September, 2009 and 31st July, 2011 have been taken on cum-interest basis

**4. Trading and Profit and Loss Account of Mr. Incomplete
for the year ended 31st March, 2012**

	₹		₹
To Opening stock (balancing figure)	80,000	By Sales	4,00,000
To Purchases	2,40,000	By Closing stock	40,000
To Gross profit c/d @ 30% on sales	<u>1,20,000</u>		
	<u>4,40,000</u>		<u>4,40,000</u>

To	Miscellaneous expenses (₹ 80,000 – ₹ 8,000 + ₹ 10,000)	82,000	By	Gross profit b/d	1,20,000
To	Depreciation:		By	Miscellaneous receipts	20,000
	Building ₹ 36,000		By	Net loss transferred to Capital A/c	25,840
	Furniture ₹ 7,800 (₹ 6,800 + ₹ 1,000)				
	Motor Car ₹ <u>16,000</u>	59,800			
To	Loss on sale of furniture	11,000			
To	Bad debts	8,000			
To	Provision for doubtful debts	<u>5,040</u>			
		<u>1,65,840</u>			<u>1,65,840</u>

Balance Sheet of Mr. Incomplete
as on 31st March, 2012

Liabilities	₹	₹	Assets	₹	₹
Capital as on 1 st April, 2011		7,16,000	Building	3,20,000	
Profit and Loss A/c			Add: Addition		
Opening balance	40,000		during the year	<u>40,000</u>	
Less: Loss for the year	<u>(25,840)</u>	14,160		3,60,000	
			Less: Provision for depreciation	<u>(36,000)</u>	3,24,000
Sundry creditors		1,12,000	Furniture	60,000	
Bills payable		16,000			
Outstanding salary		10,000	Less: Sold during the year	<u>(20,000)</u>	
				40,000	
			Add: Addition		
			during the year	<u>28,000</u>	
				68,000	
			Less: Depreciation	<u>(6,800)</u>	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	<u>(16,000)</u>	64,000

			Stock in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	<u>(5,040)</u>	2,46,960
			Bills receivable		28,000
			Cash in hand and at bank		<u>1,04,000</u>
		<u>8,68,160</u>			<u>8,68,160</u>

Working Notes:

Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash/Bank A/c	2,00,000
To Sales A/c	3,20,000	By Bills Receivable A/c	20,000
		By Bad debts A/c	8,000
		By Balance c/d (bal. fig.)	<u>2,52,000</u>
	<u>4,80,000</u>		<u>4,80,000</u>

Sundry Creditors Account

	₹		₹
To Cash/Bank A/c	1,84,000	By Balance b/d	1,20,000
To Bills Payable A/c	16,000	By Purchases A/c	1,92,000
To Balance c/d (bal. fig)	<u>1,12,000</u>		
	<u>3,12,000</u>		<u>3,12,000</u>

Bills Receivable Account

	₹		₹
To Balance b/d	32,000	By Cash/ Bank A/c (bal. fig)	24,000
To Sundry Debtors A/c	<u>20,000</u>	By Balance c/d	28,000
	<u>52,000</u>		<u>52,000</u>

Bills Payable Account

	₹		₹
To Cash/Bank A/c (bal. fig)	28,000	By Balance b/d	28,000
To Balance c/d	<u>16,000</u>	By Sundry Creditors A/c	16,000
	<u>44,000</u>		<u>44,000</u>

Furniture Account

	₹		₹
To Balance b/d	60,000	By Bank/Cash A/c	8,000
To Bank A/c	28,000	By Depreciation A/c	1,000
		By Profit and loss A/c (loss on sale)	11,000
		By Depreciation A/c	6,800
		By Balance c/d	<u>61,200</u>
	<u>88,000</u>		<u>88,000</u>

Cash/Bank Account

	₹		₹
To Balance b/d	1,80,000	By Misc. trade expenses A/c	80,000
To Miscellaneous receipts A/c	20,000	By Purchases A/c	48,000
To Sundry Debtors A/c	2,00,000	By Furniture A/c (bal. fig)	28,000
To Sales A/c	80,000	By Sundry Creditors A/c	1,84,000
To Furniture A/c (sale)	8,000	By Bills Payable A/c	28,000
To Bills Receivable A/c	24,000	By Building A/c	40,000
		By Balance c/d	<u>1,04,000</u>
	<u>5,12,000</u>		<u>5,12,000</u>

Opening Balance Sheet of Mr. Incomplete as on 31st March, 2011

Liabilities	₹	Assets	₹
Capital (bal. fig)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry Creditors	1,20,000	Motor car	80,000
Bills Payable	28,000	Stock in trade	80,000
Outstanding salary	8,000	Sundry Debtors	1,60,000
		Bills Receivable	32,000
		Cash in hand and at bank	<u>1,80,000</u>
	<u>9,12,000</u>		<u>9,12,000</u>

5 (a)

In the General Ledger
Sales Ledger Adjustment Account

		₹			₹
1.4.2011	To Balance b/d	1,41,880	1.4.2011	By Balance b/d	2,240
31.3.2012	To General Ledger		31.3.2012	By General Ledger	
	Adjustment A/c:			Adjustment A/c:	
	Sales (Cr.)	7,28,000		Sales return	10,000
	Cash paid to customers	1,840		Cash from customers	6,24,000
	Bills receivable dishonoured	6,000		Discount allowed	11,200
	To Balance c/d	13,720		Transfer to bought ledger	20,800
				Bill receivable received	40,000
				By Balance c/d	1,83,200
		<u>8,91,440</u>			<u>8,91,440</u>

Bought Ledger Adjustment Account

		₹			₹
1.4.2011	To Balance b/d	10,000	1.4.2011	By Balance b/d	96,000
31.3.2012	To General Ledger		31.3.2012	By General Ledger	
	Adjustment A/c:			Adjustment A/c:	
	Purchases returns	20,000		Purchases	5,40,000
	Cash paid	4,80,000		By Balance c/d	10,400
	Transfer from sales ledger	20,800			
	Discount received	7,200			
	Bills payable accepted	22,400			
	To Balance c/d	<u>86,000</u>			
		<u>6,46,400</u>			<u>6,46,400</u>

(b) **Branch Debtors A/c**

	₹		₹
To Branch Stock A/c	1,16,000	To Branch Cash A/c	74,000
		To Bad Debts written off	400
		To Balance c/d	<u>41,600</u>
	<u>1,16,000</u>		<u>1,16,000</u>
Goods Sent to Branch A/c			
To Branch Adjustment A/c	20,000	By Branch Stock A/c	1,20,000
1,00,000x $\frac{20}{100}$			
To Purchases/ Trading A/c	<u>1,00,000</u>		
	<u>1,20,000</u>		<u>1,20,000</u>
Branch Cash A/c			
To Branch Debtors A/c	74,000	By Branch Expenses A/c	24,000
To Branch remittance from H.O.	6,000	By Cash to H.O.	86,000
To Branch Stock A/c - Cash Sales (balancing figure)	<u>34,000</u>	By Balance c/d	4,000
	<u>1,14,000</u>		<u>1,14,000</u>
Branch Stock A/c			
To Goods sent to Branch A/c	1,20,000	By Branch Debtors A/c (balancing figure)	1,16,000
To Branch Adjustment A/c (Excess profit over normal loading)	54,000*	By Cash Sales	34,000
		By Goods in Transit (1,20,000-1,08,000)	12,000
		By Balance c/d	<u>12,000</u>
	<u>1,74,000</u>		<u>1,74,000</u>
Branch Expenses A/c			
To Branch Cash A/c	<u>24,000</u>	By Branch P&L A/c	<u>24,000</u>

* ₹ [1,16,000 + 34,000 – (1,20,000-12,000-12,000)]

Branch Adjustment A/c					
To	Stock Reserve	2,000	By	Goods sent to Branch A/c	20,000
To	Goods in Transit Reserve	2,000	By	Branch Stock A/c	54,000
To	Branch P&L A/c	<u>70,000</u>			<u> </u>
		<u>74,000</u>			<u>74,000</u>
Branch P & L A/c					
To	Branch Expenses A/c	24,000	By	Branch Adjustment A/c	70,000
To	Bad Debts	400			
To	Profit	<u>45,600</u>			<u> </u>
		<u>70,000</u>			<u>70,000</u>

6. (a) 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>

(b)

Total number of shares issued	10,00,000 shares
Less: Shares taken by the directors and others	<u>(1,00,000 shares)</u>
Shares offered to general public	<u>9,00,000 shares</u>

Statement Showing the Liability of Underwriters

	(Number of shares)		
	X	Y	Z
Gross liability (65%: 25%: 10%)	5,85,000	2,25,000	90,000
Less: Marked applications	<u>(1,19,500)</u>	<u>(57,500)</u>	<u>(10,500)</u>
	4,65,500	1,67,500	79,500
Less: Unmarked applications in the ratio of gross liability	<u>(4,55,000)</u>	<u>(1,75,000)</u>	<u>(70,000)</u>
Resultant Liability (or Surplus)	10,500	(7,500)	9,500
Less: Surplus of Y allocated to X and Z in the ratio of 65:10	<u>(6,500)</u>	<u>(7,500)</u>	<u>(1,000)</u>
Net Liability as per agreement	<u>4,000</u>	<u>Nil</u>	<u>8,500</u>

In the books of a Joint Stock Company

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.	11,00,000	
	To Equity Share Capital A/c		10,00,000
	To Securities Premium A/c		1,00,000
	(Being the issue of 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 1 per share to the directors, their relatives and friends as per Board's Resolution No.....dated.....)		
	Bank A/c Dr.	97,62,500	
	To Share Application A/c		97,62,500
	(Being application money received on 8,87,500 shares @ ₹ 11 each)		

X (4,000 shares x ₹ 11)	Dr.	44,000	
Z (8,500 shares x ₹ 11)	Dr.	93,500	
Share Application A/c	Dr.	97,62,500	
To Equity Share Capital A/c			90,00,000
To Securities Premium A/c			9,00,000
(Being allotment of shares to X – 4,000 and Z- 8,500, application money credited to Equity Share Capital Account and Securities Premium Account as per Board's Resolution No....dated....)			
Underwriting Commission A/c	Dr.	1,98,000	
To X (Note 1)			1,28,700
To Y (Note 1)			49,500
To Z (Note 2)			19,800
(Being the amount payable to X, Y and Z as underwriting commission @ 2% of the issue price)			
X	Dr.	84,700	
Y	Dr.	49,500	
To Bank A/c			1,34,200
(Being the amount paid to X and Y in respect of underwriting commission after adjusting amount payable on shares allotted)			
Bank A/c	Dr.	73,700	
To Z			73,700
(Being the balance money received from Z on shares allotted after adjusting underwriting commission)			

Working Note:

Statement showing the Amount Due from (Due to) Underwriters

Underwriters		X	Y	Z
Number of shares to be subscribed as per agreement		<u>4,000</u>	<u>Nil</u>	<u>8,500</u>

Amount payable @ ₹ 11 per share	(₹)	44,000	-	93,500
Less: Underwriting commission @ 2%				
X – on ₹ 64,35,000		(1,28,700)	-	-
Y – on ₹ 24,75,000		-	(49,500)	-
Z – on ₹ 9,90,000	-	-	-	<u>(19,800)</u>
Amount paid/ (received)		<u>(84,700)</u>	<u>(49,500)</u>	<u>73,700</u>

7. (a) 1. **Computation of Actual Borrowing Costs incurred during the year**

Source	Loan Amount	Interest Rate	Interest Amount
	₹ in lakhs		₹ in lakhs
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	<u>110.00</u>	11.5%	<u>12.65</u>
Total	<u>400.00</u>		<u>40.40</u>
Specific Borrowings included above	<u>190.00</u>		<u>17.75</u>

2. **Weighted Average Capitalisation Rate for General Borrowings =**

$$\frac{\text{Total Interest} - \text{Interest on Specific Borrowings}}{\text{Total Borrowings} - \text{Specific Borrowings}}$$

$$= \frac{(40.40 - 17.75)}{(400 - 190)} \times 100 = 10.79\%$$

3. **Capitalisation of Borrowing Costs under AS – 16 will be as under:**

Plant	Borrowing	Loan Amount	Interest Rate	Interest Amount	Cost of Asset	
		₹ in lakhs		₹ in lakhs	₹ in lakhs	₹ in lakhs
P	General	100	10.79%	10.79		110.79
Q	Specific	65	10.00%	6.50	71.50	
	General	60	10.79%	6.47	<u>66.47</u>	137.97

$$=1^{\text{st}} \text{ January, 2011} + \frac{120 \text{ months}}{5}$$

$$=1^{\text{st}} \text{ January, 2011} + 24 \text{ months} = 1^{\text{st}} \text{ January, 2013}$$

$$\text{Interest} = ₹ 25,000 \times 10/100 \times 2 \text{ years} = ₹ 5,000$$

- (d) Larger organisations often go for an ERP package where finance comes as a module. An ERP is an integrated software package that manages the business process across the entire enterprise.

Following advantages of using an ERP for maintaining accounts make ERP packages popular day by day:

1. Standardised processes and procedures : An ERP is a generalised package which covers most of the common functionalities of any specific module.
2. Standardised reporting : Majority of the desired reports are available in an ERP package. These reports are standardised across industry and are generally acceptable to the users.
3. Duplication of data entry is avoided as it is an integrated package.
4. Greater information is available through the package.

(e) Journal Entries in the Books of Bharat Ltd.

Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.2009	Employees compensation expenses account Dr. 48,000 To Employees stock option outstanding account 48,000 (Being compensation expenses recognized in respect of the employees stock option i.e. 1,000 options granted to employees at a discount of ₹ 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)		
	Profit and loss account Dr. 48,000 To Employees compensation expenses account 48,000 (Being expenses transferred to profit and loss account at the end of the year)		

31.3.2010	Employees compensation expenses account	Dr.	48,000	48,000
	To Employees stock option outstanding account (Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of ₹ 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account	Dr.	48,000	48,000
	To Employees compensation expenses account (Being expenses transferred to profit and loss account at the end of the year)			
31.3.2011	Employees stock option outstanding account (W.N.1)	Dr.	12,000	12,000
	To General Reserve account (W.N.1) (Being excess of employees compensation expenses transferred to general reserve account)			
30.6.2011	Bank A/c (600 x ₹ 40)	Dr.	24,000	90,000
	Employee stock option outstanding account (600 x ₹ 120)	Dr.	72,000	
	To Equity share capital account (600 x ₹ 10)			
	To Securities premium account (600 x ₹ 150) (Being 600 employees stock option exercised at an exercise price of ₹ 40 each)			
01.10.2011	Employee stock option outstanding account	Dr.	12,000	

	To General reserve account (Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of 100 options at the end of exercise of option period)		12,000
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Working Note:

On 31.3.2011, Bharat Ltd. will examine its actual forfeitures and make necessary adjustments, if any to reflect expenses for the number of options, that have actually vested. 700 employees stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

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