Gurukripa's Guideline Answers to Nov 2012 Exam Questions IPCC Group II Advanced Accounting

Question No. **1** is compulsory **(4 × 5 = 20 Marks)**
Answer any **five** questions from the remaining **six** questions **(16 × 5 = 80 Marks)** (Answer any 4 out of 5 in **Q.7**)

Question 1(a): Accounts of Banking Companies – Provisioning with ECGC Cover N 12 (5 Marks)

A Loan Account remains out of order as on the date of Balance Sheet of a Bank. The account has been classified as doubtful assets (upto 1 year). Details of the accounts are:

Outstanding	₹ 6,73,000
ECGC Coverage	25% (Limited to ₹ 1,00,000)
Value of Security Held	₹ 1,50,000

Compute the necessary provision to be made by a Bank as per applicable rates.

Solution: **Similar to Page A.7.48, Illustration 20,21,22 [M 12, N 08, M 07, M 00 Qns]**

	Particulars	₹
	Loan Outstanding	6,73,000
Less:	Realisable Value of Securities	(1,50,000)
	Unsecured Portion subject to ECGC cover	5,23,000
Less:	ECGC Coverage (25% on ₹ 5,23,000 or ₹ 1,00,000 whichever is lower)	(1,00,000)
	Unsecured Portion	4,23,000
Provision to be created:		
	– Unsecured Portion at 100%	4,23,000
	– Secured Portion at 25% (upto 1 year)	37,500
	Total	**4,60,500**

Question 1(b): Underwriting – Liability of Underwriters N 12 (5 Marks)

ABC Ltd came out with a Public Issue of 3,00,000 Equity Shares of ₹ 10 each at ₹ 15 per Share. P, Q and R took underwriting of the issue in ratio of 3 : 2 : 1 with provisions of Firm Underwriting of 20,000, 14,000 and 10,000 Shares respectively.

Applications were received for 2,40,000 Shares excluding Firm Underwriting. The Marked Applications from public were received as under: P – 60,000, Q– 50,000, R– 60,000.

Compute the Liability of each Underwriter as regards the Number of Shares to be taken up assuming that the benefit of Firm Underwriting is not given to individual Underwriter.

Solution: **Similar to Page A.3.62, Illustration 15 [M 01]**

Underwriter's Liability (No. of Shares) if Benefit of Firm Underwriting is NOT GIVEN to Underwriters

Note: Under this assumption, "Firm Underwriting" is also treated as "Unmarked Applications". Hence, "Unmarked Applications + Firm Underwriting Applications" are apportioned in Gross Liability ratio.

	Particulars	P	Q	R	Total
	Gross Liability (in the ratio 3 : 2 : 1)	1,50,000	1,00,000	50,000	3,00,000
Less:	Marked Applications	(60,000)	(50,000)	(60,000)	(1,70,000)
Less:	Unmarked Applications & Firm Underwriting in 3 : 2 : 1	(57,000)	(38,000)	(19,000)	(1,14,000)
	Balance to be taken under contract	33,000	12,000	(29,000)	16,000
Adjust:	Distribution if Surplus to P & Q in Gross Liability (3 : 2)	(17,400)	(11,600)	29,000	Nil
	Net Liability (See Note)	**15,600**	**400**	**Nil**	**16,000**
Add:	Firm Underwriting	20,000	14,000	10,000	44,000
	Total Liability (No. of Shares)	**35,600**	**14,400**	**10,000**	**60,000**
Total Liability (Amount) (No. of Shares × 15 per share)		5,34,000	2,16,000	1,50,000	9,00,000

Note: Unmarked Application (excl. Firm Underwriting) = Total 2,40,000 – Marked 1,70,000 as above = **70,000 Shares.**

Question 1(c): Accounting for Fixed Assets – Intangible Assets N 12 (5 Marks)

A Company acquired for its internal use a Software costing ₹ 10 Lakhs on 28.01.2012 from the USA for US $ 1,00,000. The Exchange Rate on that date was ₹ 52 per USD. The Seller allowed Trade Discount at 5%. The other expenditure were –

(i) Import Duty: 20%

(ii) Purchase Tax: 10%

(iii) Entry Tax: 5% (Recoverable later from Tax Department)

(iv) Installation Expenses: ₹ 25,000

(v) Professional Fees for Clearance from Customs : ₹ 20,000

Compute the cost of Software to be capitalized.

Solution: Refer Padhuka's Ready Referencer on Accounting – CA IPCC Group I, Page B.7.3, Q.No.9 AS – 10

	Particulars			₹
	Purchase Price ($1,00,000 × ₹ 52) [Spot Rate under AS 11]		52,00,000	
Less:	Trade Discount at 5% on above		(2,60,000)	
	Net Invoice Value			49,40,000
Add :	Import Duty	(20% on Net Invoice Value)		9,88,000
Add:	Purchase Tax	(assumed no credit available) 10% on (Net Invoice Value + Import Duty)		5,92,800
Add:	Installation Expenses			25,000
Add:	Professional Fees for clearance from Customs			20,000
	Total Cost of Software to be capitalised			**65,65,800**

Note 1: Cost of ₹ 10,00,000 given in question is **ignored,** and Purchase Cost of USD 1,00,000 has been considered.

Note 2: Entry Tax is not added to the Cost of the Software since it is recoverable from the Tax Department.

Question 1(d): Branch Accounts – Journal Entries in HO Books N 12 (5 Marks)

Give Journal Entries in the books of Head Office to rectify or adjust the following:

(i) Goods sent to Branch ₹ 12,000 stolen during transit. Branch Manager refused to accept any liability.

(ii) Branch paid ₹ 15,000 as Salary to the Officer of Head Office on his visit to the Branch.

(iii) On 28th March 2012, the HO despatched goods to the Branch invoiced at ₹ 25,000 which was not received by Branch till 31st March 2012.

(iv) A remittance of ₹ 10,000 sent by the Branch on 30th March 2012, received by the Head Office on 1st April 2012.

(v) Head Office made payment of ₹ 25,000 for purchase of goods by Branch and wrongly debited its own Purchase Account.

Solution:

Journal Entries in the Books of Head Office

	Particulars		Dr.(₹)	Cr.(₹)
1.	Loss in Transit A/c	Dr.	12,000	
	To Branch A/c			12,000
	(Being goods sent to Branch lost in transit.)			
2.	Salary A/c	Dr.	15,000	
	To Branch A/c			15,000
	(Being Salary Expense relatable to HO paid by the Branch) (assuming Salary = HO related)			
3.	Branch A/c	Dr.	25,000	
	To Goods sent to Branch A/c			25,000
	(Being goods in transit from Head Office to Branch)			
4.	Cheques in Transit A/c	Dr.	10,000	
	To Branch A/c			10,000
	(Being Cheques in Transit as on 31.03.2012 and reached HO only on 01.04.2012)			
5.	Branch A/c	Dr.	25,000	
	To Purchases A/c			25,000
	(Being Purchases made by Branch wrongly debited to Head Office Purchases A/c)			

Question 2: Partnership Accounts – Sale to Company N 12 (16 Marks)

P, Q and R are Partners sharing profits and losses in the ratio 3 : 2 : 1 after allowing Interest on Capital at 9% p.a. Their Balance Sheet as at 31st March 2012, are as follows:

Equity & Liabilities		₹	Assets	₹
Capital Accounts:			Plant & Machinery	1,08,000
P	50,000		Fixtures	20,000
Q	30,000		Stock	50,000
R	20,000	1,00,000	Sundry Debtors	30,000
Reserve Fund		60,000		
Creditors		48,000		
Total		2,08,000		2,08,000

They applied for conversion of the Firm into a Private Limited Company named PQR Pvt. Ltd, and the Certificate was received on 01.04.2012. They decided to maintain the same Profit Sharing Ratio and to preserve the priority in regard to repayment of capital as far as possible. For that purpose, they decided to insert a clause of issuance of Preference Shares in the Memorandum of Association in addition to issuance of Equity Shares of ₹ 10 each.

On 01.04.2012, the Value of Goodwill is to be determined on the basis of 2 years' purchase of the Average Profit from the business of the last 5 years. The particulars of profits are as under:

Year ended	31.03.2008	31.03.2009	31.03.2010	31.03.2011	31.03.2012
Profit / Loss	Profit ₹ 10,000	Loss ₹ 5,000	Profit ₹ 18,000	Profit ₹ 27,000	Profit ₹ 30,000

The Loss for the year ended 31.03.2009 was on account of loss by strike to the extent of ₹ 10,000.

It was agreed that rest of the Assets are valued on the basis of the Balance Sheet as at 31.03.2012 except Plant & Machinery which is valued at ₹ 1,02,000.

Prepare – (a) the Balance Sheet of the Company as at 01.04.2012, (b) Partners' Capital Account and (c) Statement showing the final settlement between the Partners, taking Q's Capital as basis.

Solution: **Similar to Page A.2.51, Illustration 31 [N 02]**

1. Computation of Goodwill

Particulars	₹
Adjusted Profits for 31.03.2009 = Loss (5,000) + Abnormal Item due to strike 10,000	5,000
Average Profits of 5 years = $\frac{10{,}000+5{,}000+18{,}000+27{,}000+30{,}000}{5}$ =	18,000
Goodwill = Average Profit for 5 Years × 2 years purchase = 18,000 × 2 =	**36,000**

2. Computation of Purchase Consideration

	Particulars	₹
	Goodwill	36,000
	Plant and Machinery	1,02,000
	Fixtures	20,000
	Stock	50,000
	Debtors	30,000
	Total Assets	2,38,000
Less:	Sundry Creditors	48,000
	Purchase Consideration	**1,90,000**

3. Partners' Capital Account

Particulars	P	Q	R	Particulars	P	Q	R
To P&M – Loss on revaluation of P&M, distributed in 3:2:1 (1,08,000 – 1,02,000)	3,000	2,000	1,000	By balance b/d	50,000	30,000	20,000
				By Goodwill (36,000 in 3 : 2 : 1)	18,000	12,000	6,000
To balance c/d	**95,000**	**60,000**	**35,000**	By Reserve Fund (60,000 in 3 : 2 : 1)	30,000	20,000	10,000
Total	**98,000**	**62,000**	**36,000**	**Total**	**98,000**	**62,000**	**36,000**

4. Statement showing the Number and Classes of Shares issued to Partners

Particulars	P	Q	R	Total
Closing Capital (after adjustments as per **WN 3**)	95,000	60,000	35,000	1,90,000
Profit Sharing Ratio	3	2	1	
Capital p.u. of Profit	31,667	30,000	35,000	
A. Closing Capital (as per **WN 3** Capital A/c above)	95,000	60,000	35,000	1,90,000
B. Taking Q's Capital as Base for ensuring same rights of Shareholding, Equity Shares ₹ 10 each to be issued (in 3 : 2 :1 ratio)	90,000	60,000	30,000	1,80,000
C. Balance to be issued as 9% Preference Shares	**5,000**	**–**	**5,000**	**10,000**

5. Balance Sheet of PQR Private Ltd as at 31st March (after Takeover of Firm)

	Particulars	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**		1,90,000	
	a. Share Capital	**1**		
	b. Reserves and Surplus		Nil	
(2)	**Current Liabilities:**			
	Trade Payables – given		48,000	
	Total		**2,38,000**	
II	**ASSETS**			
(1)	**Non–Current Assets**			
	Fixed Assets: Tangible Assets	**2**	1,22,000	
	Intangible Assets – Goodwill on Takeover of P'ship Firm		36,000	
(2)	**Current Assets:**			
	(a) Inventories		50,000	
	(b) Trade Receivables		30,000	
	(c) Cash and Cash Equivalents – Cash in Hand		Nil	
	Total		**2,38,000**	

Note 1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: ....Equity Shares of ₹ 10 each ....Preference Shares of ...... each		
Issued, Subs. & Paid up: 18,000 Equity Shares of ₹ 10 each(issued for non–cash consideration)	1,80,000	
.... Pref.Shares of .... each (issued for non–cash consideration)	10,000	
Total	**1,90,000**	

Note 2: Tangible Assets

Particulars	This Year	Prev. Yr
Plant and Machinery	1,02,000	
Fixtures	20,000	
Total	**1,22,000**	

Question 3(a): Buyback, Redemption of PSC, Cancellation of Own Debentures N 12 (12 Marks)

M Ltd furnished the following summarized Balance Sheet as at 31st March 2012:

Particulars	₹ in '000s	₹ in '000s
EQUITY & LIABILITIES:		
Share Capital:		
Authorised Capital:		5,000
Issued and Subscribed Capital:		
3,00,000 Equity Shares of ₹ 10 each fully paid up	3,000	
20,000 9% Preference Shares of ₹ 100 each	2,000	
(issued two months back for the purpose of buy back)		5,000

Particulars	₹ in '000s	₹ in '000s
Reserves and Surplus:		
Capital Reserve	10	
Revenue Reserve	4,000	
Securities Premium	500	
Profit and Loss Account	1,800	6,310
Non–Current Liabilities – 10% Debentures		400
Current Liabilities and Provisions		40
Total		11,750
ASSETS: Fixed Assets : Cost	3,000	
Less: Provision for Depreciation	250	2,750
Non–Current Investments at Cost		5,000
Current Assets, Loans and Advances (including Cash and Bank Balances)		4,000
Total		11,750

- The Company passed a resolution to buy back 20% of its Equity Capital at ₹ 15 per Share. For this purpose, it sold its Investments of ₹ 30 Lakhs for ₹ 25 Lakhs.
- The Company redeemed the Preference Shares at a premium of 10% on 1st April 2012.
- Included in its Investments were 'Investments in Own Debentures' costing ₹ 3 Lakhs (Face Value ₹ 3.30 Lakhs). These debentures were cancelled on 1st April 2012.

You are required to pass necessary Journal entries and prepare the Balance Sheet on 01.04.2012.

Solution: **Similar to Page A.3.39, Illustration 17 [N 10]**

1. Maximum Permissible Buyback

Details	**Rule 1:** Percentage of Shares Bought Back	**Rule 2:** Cash Availability	**Rule 3:** Debt – Equity Ratio
Maximum Buy Back	25% of No. of Shares O/S (if Spl. Resolution is passed)	$[25\% \times \frac{\text{(Paid up Cap.} + \text{Free Res.} + \text{Sec.Prem.)}}{\text{Buy Back Price}}]$	See Note below
Result	25% of 3,00,000 = **75,000 Shares**	$25\% \times \frac{30,00,000 + 40,00,000 + 5,00,000 + 18,00,000}{15}$ **= 1,55,000 Shares**	**3,70,600 Shares**

Least of the above = Maximum Permissible Buyback = **75,000 Shares.**

The Offer buyback of 60,000 Equity Shares (20% × 3,00,000) is within the above limits, and hence permissible.

Note: Rule 3: Debt Equity Ratio to be 2:1

Particulars	**₹**
(a) Desired Debt Equity Ratio after buy back	2:1
(b) Debt (10% Debentures 4,00,000 – Own Debentures 3,30,000)	70,000
(c) Equity to be maintained after Buyback = (b) ÷ 2	35,000
(d) Existing Equity (Share Capital + Free Reserves + Securities Premium)	93,00,000
(e) Permissible Dilution in Equity = (d) – (c)	92,65,000
(f) Buyback Price	15
(g) Maximum Permissible Buyback in Shares = (e) ÷ [(f) + FV]	**3,70,600**

2. Journal Entries in the books of M Ltd

	Particulars		**Dr. (₹)**	**Cr. (₹)**
1.	Cash / Bank A/c	Dr.	25,00,000	
	Profit & Loss A/c	Dr.	5,00,000	
	To Investments A/c			30,00,000
	(Being Investments of ₹ 30,00,000 sold at a loss of ₹ 5,00,000)			

	Particulars			Dr. (₹)	Cr. (₹)
2.	Equity Share Capital A/c	(60,000 × ₹ 10)	Dr.	6,00,000	
	Premium on Buyback of Equity Shares A/c	(60,000 × ₹ 5)	Dr.	3,00,000	
	To Equity Shareholders A/c				9,00,000
	(Being amount due to Equity Shareholders on account of buy back of 60,000 Shares of ₹ 10 each at ₹ 15 per Share as per Special Resolution no.......dated.......)				
3.	Preference Share Capital A/c (20,000 × ₹ 100)		Dr.	20,00,000	
	Premium on Redemption of Preference Shares A/c (20,00,000 × 10%)		Dr.	2,00,000	
	To Preference Shareholders A/c				22,00,000
	(Being amount due to Preference Shareholders on account of redemption of 20,000 Preference Shares at 10% Premium as per Resolution no....... dated.....)				
4.	Securities Premium A/c		Dr.	5,00,000	
	To Premium on Buyback of Equity Shares A/c				3,00,000
	To Premium on Redemption of Preference Shares				2,00,000
	(Being Premium on Buyback and on Redemption of Preference Shares, provided out of Securities Premium A/c)				
5.	Equity Shareholders A/c		Dr.	9,00,000	
	To Cash A/c				9,00,000
	(Being settlement of amount due to Equity Shareholders under Buyback Scheme)				
6.	Preference Shareholders A/c		Dr.	22,00,000	
	To Cash A/c				22,00,000
	(Being settlement of amount due to Preference Shareholders on redemption)				
7.	Reserve Reserves A/c		Dr.	20,00,000	
	To Capital Redemption Reserve A/c				20,00,000
	(Being amount transferred to CRR = Paid Up Capital Redeemed **less** Proceeds of fresh issue)				
8.	10% Debentures A/c		Dr.	3,30,000	
	To Investments in Debentures A/c				3,00,000
	To Capital Reserve A/c				30,000
	(Being own Debentures which were held by the Company itself cancelled)				

Note: Capital Redemption Reserve is not created for Buyback of Equity Shares since Preference Shares are issued two months back, specifically for that purpose, and Capital Base is maintained. CRR is created only for the redemption of Preference Shares, as indicated above.

3. Balance Sheet of M Ltd (after Redemption and Buyback) (Amounts in ₹ 000s)

	Particulars		Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		**1**	2,400	
	(b) Reserves and Surplus		**2**	5,340	
(2)	**Non–Current Liabilities:**	10% Debentures (400 – 330)		70	
(3)	**Current Liabilities:**	Given		40	
	Total			**7,850**	
II	**ASSETS**				
(1)	**Fixed Assets:**	Cost **less** Deprn = 3,000 – 250		2,750	
(2)	**Non–Current Assets:**	(5,000 – 3,300) (valued at cost)		1,700	
(3)	**Current Assets**, Loans and Advances (including Cash and Bank Balances) (Given 4,000 + Invts Sold 2,500 – ESC 900 – PSC 2,200)			3,400	
	Total			**7,850**	

Note 1: Share Capital

Particulars (Amounts in ₹ 000s)	This Year	Prev. Yr
Authorised: ....Equity Shares of ₹ 10 each and ...... Preference Shares of ₹ 100 each	5,000	
Issued, Subscribed & Paid up: 2,40,000 Equity Shares of ₹ 10 each	**2,400**	

Note: Additional Disclosures are required under Schedule VI (Revised), in the Annual Financial Statements, in respect of Buyback of Shares, Redemption of PSC, and Reconciliation of Number and Amount of Shares.

Note 2: Reserves and Surplus (showing appropriations and transfers) (all figures for this year)

Particulars	Opg Bal.	Additions	Deductions	Clg Bal.
Capital Reserve	10	Sale of Invts = 30	Nil	40
Capital Redemption Reserve	Nil	PSC Redemption = 2,000	Nil	2,000
Securities Premium Account	500	Nil	Buyback + PSC Red.= 500	Nil
Other Revenue Reserves	4,000	Nil	2,000	2,000
Surplus = Profit & Loss A/c	1,800	Nil	Loss on Sale = 500	**1,300**
Total	**6,310**	**2,030**	**3,000**	**5,340**

Question 3(b): N 12 (4 Marks)

Define "Finance Lease". State any three situations when a Lease would be classified as Finance Lease.

Solution: **Refer Page B.6.4, Q.No.11 & 13, AS–19**

Question 4: Internal Reconstruction cum Amalgamation N 12 (16 Marks)

Following are the summarized Balance Sheet of Companies K Ltd and W Ltd as at 31.12.2011: (₹ in 000s)

Liabilities	K Ltd	W Ltd	Assets	K Ltd	W Ltd
Share Capital:			Goodwill	20	–
Equity Shares of ₹ 100 each	2,000	1,500	Other Fixed Assets	2,400	1,150
10% Preference Shares of ₹ 100 each	700	400	Debtors	625	615
General Reserve	240	170	Stock	412	680
Profit and Loss Account	–	15	Cash at Bank	38	155
12% Debentures of ₹ 100 each	600	200	Own Debentures (Nominal Value of ₹ 2,00,000)	192	
Sundry Creditors	560	315	Discount on Issue of Debentures	2	
			Profit and Loss Account	411	
Total	4,100	2,600	Total	4,100	2,600

On 01.04.2012, K Ltd adopted the following scheme of reconstruction:

- Each Equity Share shall be sub–divided in to 10 Equity Shares of ₹ 10 each fully paid up. 50% of the Equity Share Capital would be surrendered to the Company.
- Preference Dividends are in arrears for 3 years. Preference Shareholders agreed to waive 80% of the dividend claim and accept payment for the balance.
- Own Debentures of ₹ 80,000 (Nominal Value) were sold at ₹ 98 cum interest and remaining Own Debentures were cancelled.
- Debentureholders of ₹ 3,00,000 agreed to accept one Machinery of Book Value of ₹ 3,20,000 in full settlement.
- Creditors, Debtors and Stock were valued at ₹ 5,00,000, ₹ 6,00,000 and ₹ 4,00,000 respectively. Goodwill, Discount on Issue of Debentures and Profit and Loss Account (Dr.) are to be written off.
- The Company paid ₹ 20,000 as penalty to avoid capital commitments of ₹ 4,00,000.

On 20.04.2012, a scheme of absorption was adopted. K Ltd would take over W Ltd. The Purchase Consideration was fixed as below –

(a) Equity Shareholders of W Ltd will be given 50 Equity Shares of ₹ 10 each fully paid up, in exchange for every 5 Shares held in W Ltd.

(b) Issue of 10% Preference Shares of ₹ 100 each in the ratio of 4 Preference Shares of K Ltd for every 5 Preference Shares held in W Ltd.

(c) Issue of 12% Debentures of ₹ 100 each of K Ltd for every 12% Debentures in W Ltd.

Pass necessary Journal entries in the books of K Ltd, and draw the resultant Balance Sheet as at 2nd April 2012.

Solution: Refer Padhuka's Ready Referencer on Accounting – CA IPCC Group I, Page A.11.93, Illus 41 [N 05]

1. Journal Entries in the books of K Ltd for Internal Reconstruction on 1st April

	Particulars		Dr.(₹)	Cr.(₹)
1.	Equity Share Capital (₹ 100) A/c	Dr.	20,00,000	
	To Equity Share Capital (₹ 10) A/c			20,00,000
	(Being the sub–division of 20,000 Equity Shares of ₹ 100 each into 2,00,000 Shares of ₹ 10 each)			
2.	Equity Share Capital (₹ 10) A/c	Dr.	10,00,000	
	To Reconstruction A/c			10,00,000
	(Being surrender of 50% of Equity Share Capital ₹ 10 and transferred to Reconstruction A/c for cancellation)			
3.	Reconstruction A/c	Dr.	42,000	
	To Bank A/c			42,000
	(Being payment of 10% of the Dividend Payable to Preference Shareholders for 3 years ₹ 7,00,000 × 10% × 3 years × 20% payable)			
4.	Bank A/c (800 Debentures × ₹ 98 Cum–Interest)	Dr.	78,400	
	To Own Debentures A/c			76,800
	To Reconstruction A/c			1,600
	(Being Sale of Own Debentures and Gain on Sale transferred to Reconstruction A/c)			
	Note 1: Cost of Own Deb. Sold ₹ 80,000 × $\frac{\text{Total Cost ₹ 1,92,000}}{\text{Total FV ₹ 2,00,000}}$ = ₹ 76,800			
	Note 2: Assumed that 31st March = Date of Interest Payment, and all Interest dues have been paid by K Ltd. Hence, no interest adjustment is required for the cum–interest Sale.			
5.	12% Debentures A/c	Dr.	1,20,000	
	To Own Debentures A/c (₹ 1,92,000 – ₹ 76,800)			1,15,200
	To Reconstruction A/c			4,800
	(Being remaining Own Debentures cancelled, and Gain on Cancellation transferred to Reconstruction Account)			
6.	12% Debentures A/c	Dr.	3,00,000	
	Reconstruction A/c	Dr.	20,000	
	To Machinery A/c			3,20,000
	(Being amount of ₹ 3,00,000 settled, by transferred Machinery costing ₹ 3,20,000, Loss on Settlement transferred to Reconstruction)			
7.	Creditors A/c (₹ 5,60,000 – ₹ 5,00,000)	Dr.	60,000	
	To Debtors A/c (₹ 6,25,000 – ₹ 6,00,000)			25,000
	To Stock A/c (₹ 4,12,000 – ₹ 4,00,000)			12,000
	To Reconstruction A/c (**Balancing Figure**)			**23,000**
	(Being Assets and Liabilities revalued and adjustment made to Reconstruction A/c)			
8.	Reconstruction A/c	Dr.	20,000	
	To Bank A/c			20,000
	(Being Penalty paid to avoid Capital Commitments)			
9.	Reconstruction A/c	Dr.	4,33,000	
	To Goodwill A/c			20,000
	To Discount on Issue of Debentures A/c			2,000
	To P& L A/c			4,11,000
	(Being Goodwill, Discount on Issue of Debentures A/c and P & L A/c written off)			
10.	Reconstruction A/c	Dr.	5,14,400	
	To Capital Reserve A/c			5,14,400
	(Being balance in Reconstruction A/c transferred to Capital Reserve A/c)			

2. Computation of Purchase Consideration for Takeover (Merger Method)

Particulars		₹
(a) To Equity Shareholders of W Ltd	$= \frac{₹\ 15,00,000}{₹\ 100}$ = 15,000 Equity Shares × $\frac{50}{5}$ × ₹ 10	15,00,000
(b) To Preference Shareholders of W Ltd	$= \frac{₹\ 4,00,000}{₹\ 100}$ = 4,000 Preference Shares × $\frac{4}{5}$ × ₹ 10	3,20,000
Total Purchase Consideration		**18,20,000**

3. Computation of Amount Credited to General Reserve upon takeover of W Ltd (Merger Method)

Particulars			₹
	Share Capital of W Ltd	(Equity ₹ 15,00,000 + Preference ₹ 4,00,000)	19,00,000
Less:	Purchase Consideration	(Shares of K Ltd issued)	(18,20,000)
	Difference – transfer to Capital Reserve		**80,000**

4. Journal Entries in the books of K Ltd for Takeover of W Ltd on 2nd April (Merger Method)

S.No.	Particulars		Dr.(₹)	Cr.(₹)
1.	Business Purchase A/c	Dr.	18,20,000	
	To Liquidator of W Ltd A/c			18,20,000
	(Being Purchase Consideration on takeover of W Ltd recorded) **(WN 1)**			
2.	Fixed Assets A/c	Dr.	11,50,000	
	Stock A/c	Dr.	6,80,000	
	Debtors A/c	Dr.	6,15,000	
	Cash at Bank A/c	Dr.	1,55,000	
	To Sundry Creditors A/c			3,15,000
	To 12% Debentures A/c (W Ltd)			2,00,000
	To Profit and Loss A/c			15,000
	To Business Purchase A/c			18,20,000
	To General Reserve **(balancing figure) (WN 2)**			**1,70,000**
	To Capital Reserve			80,000
	(Being Assets, Liabilities and Reserves taken over and the excess of Owners Funds of Transferee Company, i.e. W Ltd, over the consideration due to them, adjusted in General Reserve since the Amalgamation is in the nature of Merger)			
3.	12% Debentures A/c (W Ltd)	Dr.	2,00,000	
	To 12% Debentures A/c (K Ltd)			2,00,000
	(Being issue of 12% Debentures in K Ltd against Debentures held in W Ltd)			
4.	Liquidators of W Ltd A/c	Dr.	18,20,000	
	To Equity Share Capital A/c			15,00,000
	To 9% Preference Share Capital A/c			3,20,000
	(Being discharge of Purchase Consideration due to Liquidator of W Ltd)			

5. Balance Sheet of K Ltd (and reduced) as at 2nd April (after Takeover & Internal Reconstruction)

	Particulars as at 2nd April		Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		**1**	35,20,000	
	(b) Reserves and Surplus		**2**	10,19,400	
(2)	**Non–Current Liabilities:**				
	Long Term Borrowings	12% Debentures (6,00,000 – 1,20,000 – 3,00,000)		3,80,000	
(3)	**Current Liabilities:**				
	Trade Payables	Creditors (5,60,000 – 60,000 + 3,15,000)		8,15,000	
	Total			**57,34,400**	

	Particulars as at 2nd April	Note	This Year	Prev. Yr
II	**ASSETS**			
(1)	**Non–Current Assets**			
	Fixed Assets: Tangible Assets (24,00,000 – 3,20,000 + 11,50,000)		32,30,000	
(2)	**Current Assets:**			
	(a) Inventories Stock–in–Trade (4,12,000 – 12,000 + 6,80,000)		10,80,000	
	(b) Trade Receivables Debtors (6,25,000 – 25,000 + 6,15,000)		12,15,000	
	(c) Cash and Cash Equivalents (38,000 + 78,400 – 20,000 + 1,55,000 – 42,000)		2,09,400	
	Total		**57,34,400**	

Schedule 1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: .... Equity Shares of ₹ ..... each &....... Preference Shares of ₹ ......each		
Issued, Subscribed & Paid up: 2,50,000 Equity Shares of ₹ 10 each	25,00,000	
10,200 9% Preference Shares of ₹ 100 each	10,20,000	
(Of the above, 1,50,000 Equity Shares and 3,200 Preference Shares are issued for non–cash consideration, in a scheme of amalgamation)		
Total	**35,20,000**	

Schedule 2: Reserves and Surplus

Particulars		This Year	Prev. Yr
(a) Capital Reserve	(5,14,400 + 80,000)	5,94,400	
(b) General Reserve	(2,40,000 + 1,70,000)	4,10,000	
(c) Surplus	Profit and Loss A/c	15,000	
Total		**10,19,400**	

Question 5(a): Banking Companies – Statement of Profit and Loss N 12 (8 Marks)

Particulars	₹	Particulars	₹
Interest and Discount Received	38,00,160	Commission, Exchange and Brokerage	1,90,000
Interest Paid on Deposits	22,95,360	Rent Received	72,000
Issued and Subscribed Capital	10,00,000	Profit on Sale of Investments	2,25,800
Salaries and Allowances	2,50,000	Depreciation on Assets	40,000
Directors Fees and Allowances	35,000	Statutory Expenses	38,000
Rent and Taxes Paid	1,00,000	Preliminary Expenses	30,000
Postage and Telegrams	65,340	Auditor's Fee	12,000
Statutory Reserve Fund	8,00,000		

The following further information is given:

(1) A Customer to whom a sum of ₹ 10 Lakhs was advanced has become insolvent and it is expected only 55% can be recovered from his estate.

(2) There was also Debts for which a Provision of ₹ 2,00,000 was found necessary.

(3) Rebate on Bill Discounted on 31.03.2011 was ₹ 15,000 and on 31.03.2012 was ₹ 20,000.

(4) Income Tax of ₹ 2,00,000 is to be provided.

(5) The Directors desire to declare 5% dividend.

Prepare the Profit and Loss Account of KLM Bank Ltd for the year ended 31.03.2012, and also show how the Profit and Loss Account will appear in the Balance Sheet, if the Profit and Loss Account Opening Balance was NIL as on 31.03.2011.

Solution: **Similar to Page A.7.57, Illustration 33 [M 08]**

1. Profit and Loss Account of KLM Bank Ltd for the year ended 31.03.2012

Particulars		Sch.	31.03.2012	31.03.2011
I. Income:	Interest Earned	13	37,95,160	
	Other Income	14	4,87,800	
Total			**42,82,960**	

Particulars			Sch.	31.03.2012	31.03.2011
II. Expenditure:	Interest Expended		15	22,95,360	
	Operating Expenses		16	5,70,340	
	Provisions and Contingencies			8,50,000	
[Bad Debts (10,00,000× 45%) + Further B/D 2,00,000 + Tax Provn 2,00,000)					
Total				**37,15,700**	
III. Profit / Loss:	Net Profit for the Year			5,67,260	
Add:	Profit / (Loss) Brought Forward			Not Given	
Total				**5,67,260**	
IV. Appropriations:	Transfer to Statutory Reserve	(25% of 5,67,260)		1,41,815	
	Proposed Dividend	(5% of 10,00,000)		50,000	
	Balance carried over to Balance Sheet **(bal. fig)**			**3,75,445**	
Total				**5,67,260**	

Disclosure in B/ Sheet: Balance of ₹ 3,75,445 will appear in Reserves and Surplus in Schedule 2 of the Balance Sheet.

Schedules to the Profit and Loss Account

Schedule 13 – Interest Earned	**31.03.2012**	**31.03.2011**
Interest / Discount on Advances / Bills [38,00,160 + 15,000 – 20,000]	37,95,160	
(Net of Rebate of Bills discounted)	–	
Total	**37,95,160**	

Schedule 14 – Other Income	**31.03.2012**	**31.03.2011**
Commission Exchange and Brokerage	1,90,000	
Rent Received	72,000	
Profit on Sale of Investments	2,25,800	
Total	**4,87,800**	

Schedule 15 – Interest Expended	**31.03.2012**	**31.03.2011**
Interest on Deposits	22,95,360	
Total	**22,95,360**	

Schedule 16 – Operating Expenses	**31.03.2012**	**31.03.2011**
1.Payment to and Provisions for Employees – Salaries & Allowances	2,50,000	
2.Rent and Taxes paid	1,00,000	
3.Stationery Expenses	38,000	
4.Directors' Fees, Allowances and Expenses	35,000	
5.Postage & Telegrams	65,340	
6.Depreciation on Bank's Properties	40,000	
7.Auditor's Fees	12,000	
8.Preliminary Expenses (fully written off in the absence of information)	30,000	
Total	**5,70,340**	

Question 5(b): Insurance Companies – Revenue Account of Fire Insurance Business N 12 (8 Marks)

Prepare the Fire Insurance Revenue A/c of Jasmine Fire Insurance Co. Ltd as per IRDA Regulations for the year ended 31st March 2012, from the following details –

Particulars	₹	Particulars	₹
Claims paid	5,00,000	Expenses of Management	2,00,000
Legal Expenses regarding Claims	10,000	Provision against Unexpired Risk as on 1st April 2011	5,75,000
Premiums received	12,50,000	Claims Unpaid on 1st April 2011	50,000
Re–Insurance Premium paid	50,000	Claims Unpaid on 31st March 2012	80,000
Commission	3,00,000		

Provide for Unexpired Risk at 50% less Reinsurance.

Solution: **Similar to Page A.8.49, Illustration 15 [M 08]**

Form B – RA – Revenue Account of Jasmine Fire Insurance Co. Ltd for the Year ended 31.03.2012

	Particulars	Sch.	₹
A.	Premium Earned (Net)	1	11,75,000
	Total (A)		**11,75,000**
1.	Claims Incurred (Net)	2	5,40,000
2.	Commission	3	3,00,000
3.	Operating Expenses related to Insurance Business	4	2,00,000
	Total (B)		**10,40,000**
	Operating Profit / (Loss) from Fire & Marine Ins. Business (A – B) **Total (C)**		**1,35,000**

Schedule 1 – Premium Earned (Net)

	Particulars	₹
	Premium Received	12,50,000
Less:	Premium paid on Re–insurance	(50,000)
	Net Premium	12,00,000
Less:	Adjustment for Change in Reserve for Unexpired Risks = 50% of Net Premium Less Opening balance in URR (50% of 12,00,000 less 5,75,000)	(25,000)
	Total Premium Earned (Net)	**11,75,000**

Schedule 2 – Claims Incurred (Net)

	Particulars	₹
	Claims Paid – Direct	5,00,000
Add:	Claims Outstanding at the end of the year	80,000
Less:	Claims Outstanding at the beginning	(50,000)
	Total Claims Incurred	**5,30,000**
Add:	Legal Expenses in relation to Claims	10,000
	Total	**5,40,000**

Schedule 3 – Commission Expenses = ₹ 3,00,000

Schedule 4 – Operating Expenses related to Insurance business: Expenses of Management = ₹ 2,00,000

Question 6(a): Accounting for Debentures – Purchase and Cancellation N 12 (8 Marks)

Himalayas Ltd had ₹ 10,00,000, 8% Debentures of ₹ 100 each as on 31st March 2011. The Company purchased in the Open Market following Debentures for immediate cancellation:

On 01.07.2012: 1,000 Debentures at ₹ 97 (cum–interest). On 29.02.2012: 1,800 Debentures at ₹ 99 (ex–interest)

Debenture Interest due dates are 30th September and 31st March.

Give Journal Entries in the books of the Company for the year ended 31st March 2012.

Solution: **Similar to Page A.3.95, Illustration 19 [N 81]**

Journal Entries in the Books of Himalayas Ltd

Date	Particulars	Dr. (₹)	Cr. (₹)
01.07.2011	Investment in Own 8% Debentures A/c Dr. Interest on Own 8% Debentures A/c Dr. To Bank A/c **(WN 1)** (Being 1,000 Debentures purchased at ₹ 97 cum interest. Payment = 97,000, Interest from 1st July to 30th Sep = 1,00,000 × 8% × $\frac{3}{12}$ = 2,000, hence, balance = Cost)	95,000 2,000	 97,000
01.07.2011	8% Debentures A/c Dr. To Investment in Own 8% Debentures A/c To Profit on Cancellation of Own Debentures A/c (Being cancellation of Own Debentures)	1,00,000	 95,000 5,000

Date	Particulars	Dr. (₹)	Cr. (₹)
30.09.2011	Interest Expense A/c Dr. To Bank A/c (9,00,000 × 8% × $\frac{6}{12}$) (Being half yearly Debenture Interest paid on ₹ 9,00,000 for 6 months)	36,000	36,000
29.02.2012	Investment in Own Debentures A/c (1,800 × ₹ 99) Dr. Interest on Own 8% Debentures A/c Dr. To Bank A/c (Being 1,800 Debentures purchased at ₹ 99 ex–interest. Interest from 1st Oct to 29 Feb, i.e. for 5 months = 1,800 × 100 × 8% × $\frac{5}{12}$ = ₹ 6,000)	1,78,200 6,000	1,84,200
29.02.2012	8% Debentures A/c Dr. To Interest on Own 8% Debentures A/c To Profit on Cancellation of Own Debentures A/c (Being cancellation of Own Debentures)	1,80,000	1,78,200 1,800
31.03.2012	Interest Expense A/c Dr. To Bank A/c (7,20,000 × 8% × $\frac{6}{12}$) (Being Half–Yearly Interest paid on Debentures ₹ 7,20,000 for 6 months)	28,800	28,800
31.03.2012	Profit & Loss A/c Dr. To Interest Expense A/c (Being Interest Expense transferred to Profit & Loss A/c)	64,800	64,800
31.03.2012	Profit on Cancellation of Own Debentures A/c Dr. To Profit & Loss A/c (Being Profit on cancellation transferred to Profit & Loss A/c)	6,800	6,800

Question 6(b): Department Accounts – Rectification of Profits – Managers' Commission N 12 (8 Marks)

Department A sells goods to Department B at a Profit of 20% on cost and Department C at 15% Profit on Cost. Department B sells goods to A and C at a Profit of 10% and 20% on Sales respectively. Department C sells goods to A and B at 15% and 10% Profit on Cost respectively.

Department Managers are entitled to 10% Commission on Net Profit subject to Unrealized Profit on Department Sales being eliminated. Departmental Profits are charging Manager's Commission, but before adjustment of unrealized profit are as under:

Department A ₹ 36,000 Department B ₹ 27,000 Department C ₹ 18,000

Stocks lying at different Departments at the end of the year are as below: (in ₹)

Particulars	Department A	Department B	Department C
Transfer from Department A	–	7,200	5,750
Transfer from Department B	19,000	–	15,000
Transfer from Department C	4,600	3,300	–

Find out the correct Departmental Profits after charging Manager's Commission.

Solution: **Similar to Page A.1.8, Illustration 2 & 3 [N 01, N 10]**

1. Computation of Unrealised Profits

Particulars of transfer to	Department A	Department B	Department C	Total
From Department A to B and C at 20% and 15% of Cost	Nil	7,200 × $\frac{20}{100}$ = 1,200	5,750 × $\frac{15}{115}$ = 750	1,950
From Department B to A and C at 10% and 20% of Sales	19,000 × $\frac{10}{100}$ = 1,900	Nil	15,000 × $\frac{20}{100}$ = 3,000	4,900
From Department C to A and B at 15% and 10% of Cost	4,600 × $\frac{15}{115}$ = 600	10,000 × $\frac{10}{110}$ = 300	Nil	900
Total	**2,500**	**1,500**	**3,750**	

2. Computation of Correct Departmental Profits after charging Manager's Commission correctly

	Particulars	Department A	Department B	Department C
	Profits after charging Mgr Commission	36,000	27,000	18,000
Add:	Wrong Commission = 10% of Profits = 1/10 on Profits before charging Commission = 1/9 on Profits after charging Commission	1/9 × 36,000 = 4,000	1/9 × 27,000 = 3,000	1/9 × 18,000 = 2,000
	Profits before charging Commission	40,000	30,000	20,000
Less:	Unrealised Profits i.e. Stock Reserve	(1,950)	(4,900)	(900)
	Profits qualifying for Commission	38,050	25,100	19,100
Less:	Commission at 10% of above	(3,805)	(2,510)	(1,910)
	Correct Profits after charging Commission	**34,245**	**22,590**	**17,190**

Question 7(a): AS – 19 – Finance Lease Accounting in Lessee's Books N 12 (4 Marks)

- Annual Lease Rent = ₹ 40,000 at the end of each year
- Lease period = 5 years
- Guaranteed Residual Value = ₹ 14,000
- Fair Value at the inception (beginning) of Lease = ₹ 1,50,000

Interest Rate implicit on lease is 12.6%. The Present Value Factors at 12.6% are 0.89, 0.79, 0.7, 0.622, 0.552 at the end of first, second, third, fourth and fifth years respectively.

Show the Journal Entry to record the asset taken on Finance Lease in the books of the Lessee.

Solution: **Similar to Page B.6.10, Q.No.23 [RTP]**

1. Fair Value at the inception of Lease = ₹ 1,50,000 (given)
2. Present Value of Minimum Lease Payments from Lessee's viewpoint –

Year(s)	Cash Flow Item	Amount	PV Factor	PV
1 – 4	Annual Lease Rental (ALR)	40,000	0.89 + 0.79 + 0.70 + 0.622 + 0.552 = 3.554	1,42,160
5	Guaranteed Residual Value (GRV)	14,000	0.552	7,728
	Total			**1,49,888**

3. Value of Liability = Fair Value of the Asset or PV of Minimum Lease Payments, **whichever is lower = ₹ 1,49,888.**

Journal Entry

	Particulars	Dr. (₹)	Cr. (₹)
	Asset A/c Dr. To Lessor A/c (Being the asset taken on Finance Lease by the Lessee)	1,49,888	 1,49,888

Question 7(b): AS N 12 (4 Marks)

A new Plant X was acquired in exchange of old Plant B and on payment of ₹ 20,000. The Carrying Amount of the old Plant B was ₹ 1,75,000 (Historical Cost less Depreciation). The Fair Value of the Plant B on the date of exchange was ₹ 1,50,000).

Suggest the accounting entry in the books of the Enterprise.

Solution: Refer Padhuka's Ready Referencer on Accounting – CA IPCC Group I, Page B.7.8, Q.No.27 AS – 10

Cost: The cost of the Asset acquired is determined as under –

	Particulars	₹
	Fair Market Value 1,50,000 or Net Book Value of Asset given up 1,75,000 **(Note)**	1,50,000
Add / (Less):	Balance Cash or other consideration paid (or received)	20,000
	Cost of Asset acquired	**1,70,000**

Note: Fair Market Value may be determined by reference either to asset given up or asset acquired, whichever is more clearly evident. In this case, both values are available, and on prudence basis, the lower amount is considered.

Journal Entry

Particulars		Dr. (₹)	Cr. (₹)
Plant X A/c	Dr.	1,50,000	
Loss on Disposal of Plant X A/c		25,000	
To Plant B A/c			1,75,000
(Being new asset acquired under the scheme of exchange)			

Question 7(c): AS – 29 Contingent Liability Disclosure N 12 (4 Marks)

A Company is in a dispute involving allegation of infringement of patents by a Competitor Company who is seeking damages of a huge sum of ₹ 900 Lakhs. The Directors are of the opinion that the claim can be successfully resisted by the Company. How would you deal the same in the annual accounts of the Company?

Solution: **Similar to Page B.9.16, Q.No.36**

Hint: Disclosure of Contingent Liability may be appropriate, since it is a **possible obligation**.

Question 7(d): Conditions for Sweat Equity Issue N 12 (4 Marks)

State the conditions of issuance of Sweat Equity Shares by Joint Stock Companies.

Solution: **Refer Padhuka's Ready Referencer on Accounting – CA IPCC Group I, Page A.7.4, Q.No.11**

Conditions [Sec.79A]: Companies can issue Sweat Equity Shares subject to the following conditions –

Aspect	Description
Applicability	Company incorporated, formed and registered under this Act, and includes its Subsidiary Company incorporated in a Country outside India.
Class	Sweat Equity Shares must be of **a class of Shares already issued** by the Company.
Special Resolution	(a) Issue of Sweat Equity Shares must be authorised by a **Special Resolution** passed by the Company in General Meeting. (b) The Resolution must specify – (i) Number of Shares, (ii) Current Market Price, (iii) Consideration, if any, and (iv) Class(es) of Directors / Employees to whom such Shares are to be issued.
Timing	A Company can issue Sweat Equity Shares **only after 1 year** from date on which the Company was entitled to commence business.
Guidelines	Sweat Equity Shares should be issued in accordance with – • SEBI (Employees Stock Option Scheme & Employees Stock Purchase Scheme) Guidelines, in case of **Listed Companies**, • Unlisted Companies (Issue of Sweat Equity Shares) Rules, in case of **Unlisted Companies**.
Treatment	All the limitations, restrictions and provisions relating to Equity Shares is applicable to Sweat Equity Shares issued by the Company.

Question 7(e): Give two examples on each of the following items – N 12 (4 Marks)

(i) Change in Accounting Policy	**Page B.1.2, Q No 6, Pt 4** **(From Padhuka's Ready Referencer on Accounting CA IPCC – Group I)**
(ii) Change in Accounting Estimate	**Page B.2.4, Q.No.14, , Para 2**
(iii) Extra Ordinary Items	**Page B.2.1, Q.No.2 Point 2**
(iv) Prior Period Items	**Page No B.2.4, Q.No.11, Point 2**

PCC Group I Accounting – Questions Relevant for IPCC Group II

Question 1(b): AS – 12 Grant under Asset Cost Reduction Method – Refund of Grant N 12 (5 Marks)

A Fixed Asset is purchased for ₹ 20 Lakhs, Government Grant received towards it is ₹ 8 Lakhs. Residual Value is ₹ 4 Lakhs and useful life is 4 years. Assume SLM Depreciation. Asset is shown net of Grant. After 1 year, Grant becomes refundable to the extent of ₹ 5 Lakhs due to non–compliance with conditions. Pass Journal Entries.

Solution: **Refer Page B.4.9, Q.No.28 for Accounting Principles.** Journal Entries are as under –

	Particulars	Dr. (₹)	Cr. (₹)
1.	Fixed Assets A/c Dr. To Bank A/c (Being Purchase of Fixed Asset for ₹ 20,00,000)	20,00,000	20,00,000
2.	Bank A/c Dr. To Fixed Asset A/c (Being Grant recorded as reduction from Cost of Asset)	8,00,000	8,00,000
3.	Depreciation A/c Dr. To Fixed Asset A/c (Being Depreciation for year of acquisition, under SLM before Grant Refund) **(Note 1)**	2,00,000	2,00,000
4.	Fixed Asset A/c Dr. To Bank A/c (Being grant refunded to Government on non–compliance of related conditions and cost of the asset thereby increased.)	5,00,000	5,00,000
5.	Depreciation A/c Dr. To Fixed Asset A/c (Being depreciation charged on Fixed Asset under SLM after Grant Refund) **(Note 2)**	3,66,667	3,66,667

Note: 1. Depreciation (before Grant Refund) = $\dfrac{\text{Cost } 20,00,000 \ (-) \text{ Grant } 8,00,000 \ (-) \text{ Residual Value } 4,00,000}{\text{Useful Life 4 years}}$ = **2,00,000**

2. Depreciation (after Grant Refund) = $\dfrac{\text{WDV } 10,00,000 + \text{Grant } 5,00,000 - \text{Resi.Value } 4,00,000}{\text{Balance Useful Life 3 years}}$ = **3,66,667**

Question 3(a): Banking Companies – Rebate on Bills Discounted N 12 (8 Marks)

On 31st March 2011, Upkeep Bank Ltd had a balance of ₹ 27 Crores in 'Rebate on Bills Discounted" Account. During the year ended 31st March 2012, Upkeep Bank Ltd discounted Bills of Exchange of ₹ 12,000 Crores charging interest at 18% per annum, the average period of discount being for 73 days. Of these, Bills of Exchange of ₹ 1,800 Crores were due for realization from the Acceptors / Customers after 31st March 2012, the average period outstanding after 31st March 2012 being 36.5 days.

Upkeep Bank Ltd asks you to pass Journal Entries and show the Ledger Accounts pertaining to – (1) Discounting of Bills of Exchange, and (2) Rebate on Bills Discounted.

Solution: **Similar to Page A.7.42, Illustration 9 [M 98]**

1. Journal Entries (in ₹ Crores)

	Particulars	Dr.	Cr.
1.	Rebate on Bills Discounted A/c Dr. To Discount on Bills A/c (Being the transfer of Opening Balance in Rebate on Bills Discounted Account to Discount on Bills A/c)	27	27
2.	Bills Purchased and Discounted A/c Dr. To Discount on Bills A/c To Customer's A/c **(balancing figure)** (Being bills discounted during the year ₹ 12,000 × 18% × 73 days ÷ 365 days)	12,000	432 11,568
3.	Discount on Bills A/c Dr. To Rebate on Bills Discounted A/c (Being Provision for Unexpired Discount as on 31.3.2012 = ₹ 1800 × 18% × 36.5 /365)	32.4	32.4
4.	Discount on Bills A/c Dr. To Profit and Loss A/c (Being transfer of Discount Income net after adjustment)	426.60	426.60

2. Discount on Bills A/c

Date	Particulars	₹ Crores	Date	Particulars	₹ Crores
31.03.12	To Rebate on Bills Discounted	32.4	01.04.11	By Rebate on Bills Discounted	27.0
31.03.12	To Profit & Loss A/c **(bal. fig.)**	426.6	2011–12	By Bills Purchased & Discounted	432.0
	Total	**459.0**		**Total**	**459.0**

3. Rebate on Bills Discounted A/c

Date	Particulars	₹ Crores	Date	Particulars	₹ Crores
01.04.11	To Discount on bills A/c	27.00	01.04.11	By balance b/d	27.00
31.03.12	To Balance c/d	32.40	31.03.12	By Discount on Bills A/c	32.40
	Total	**59.40**		**Total**	**59.40**

Question 5(a): Branch Accounts – Foreign Branches – Branch P&L and B/S in HO Books N 12 (8 Marks)

On 31.12.2012, the following balances appeared in the books of Kolkata Branch of an English Firm having its HO in New York:

Particulars	Dr. ₹	Cr. ₹
Stock on 1st Jan 2012	93,600	
Purchases and Sales	6,25,000	9,37,500
Debtors and Creditors	3,06,000	2,04,000
Bills Receivable and Payable	81,600	71,400
Salaries and Wages	40,000	–
Rent, Rates and Taxes	42,500	–
Furniture	36,400	–
Bank A/c	2,27,460	–
New York Account	–	2,39,660
Total	14,52,560	14,52,560

Stock on 31st December 2012 was ₹ 2,55,000.

Branch Account in New York books showed a Debit Balance of $ 5,360 on 31st December 2012, and Furniture appeared in the Head Office books at $ 700.

Rate of Exchange on 31st Dec. 2011 was ₹ 52, and on 31st Dec. 2012 was ₹ 51. The Average Rate for the year was ₹ 50.

Prepare in the Head Office books, the Profit and Loss A/c and the Balance Sheet of the Branch.

Solution: **Similar to Page A.1.86, Illustration 35 [M 99]**

1. Conversion of Kolkata Branch Trial Balance as at 31.12.12 into US Dollar

Particulars	Dr. (₹)	Cr. (₹)	Rate per US $ (₹)	Dr. US $	Cr. US $
Stock as on 01.01.2012	93,600	–	52	1800	–
Purchases & Sales	6,25,000	9,37,500	50	12,500	18,750
Debtors and Creditors	3,06,000	2,04,000	51	6,000	4,000
Bills Receivable and Payable	81,600	71,400	57	1,600	1,400
Wages and Salaries	40,000	–	50	800	–
Rent, Rates & Taxes	42,500	–	50	850	–
Furniture	36,400	–	Actual	700	–
Bank A/c	2,27,460	–	51	4,460	–
New York A/c	–	2,39,660	Actual		5,360
Loss in Foreign Exchange Fluctuation **(bal. fig)**				800	
Total	**14,52,560**	**14,52,560**		**29,510**	**29,510**
Additional Information: Closing Stock	2,55,000		51	5,000	

2. Trading and Profit & Loss Account for the year ended 31.03.2012 of Kolkata Branch

Particulars	US $	Particulars	US $
To Opening Stock	1,800	By Sales	18,750
To Purchases	12,500	By Closing Stock (₹ 2,55,000 ÷ 51)	5,000
To Gross Profit c/d	**9,450**		
Total	**23,750**	**Total**	**23,750**
To Rent, Rates & Taxes	850	By Gross Profit b/d	9,450
To Salaries and Wages	800		
To Loss in Exchange Rate Fluctuation	800		
To Net Profit	**7,000**		
Total	**9,450**	**Total**	**9,450**

3. Balance Sheet of Kolkata Branch as on 31.12.2012

Equity and Liabilities	US $	Assets	US $
Capital: Branch A/c balance b/d 5,360		**Non–Current Assets:** Furniture	700
Add: Profit for the year 7,000	12,360	**Current Assets:**	
Current Liabilities:		Inventories	5,000
Sundry Creditors	4,000	Sundry Debtors	6,000
Bills Payable	1,400	Bills Receivables	1,600
		Cash and Bank Balances	4,460
Total	**17,760**	**Total**	**17,760**

Question 6: Amalgamation of Firms N 12 (16 Marks)

A and B are Partners of B & Co. sharing Profits and Losses in the ratio of 3 : 1. B and C are Partners of C & Co. sharing Profits and Losses in the ratio of 2 : 1. On 31st October 2011, they decided to amalgamate and form a New Firm M/s ABC & Co. wherein A, B and C would be Partners sharing Profits and Losses in 3 : 2 : 1. Their Balance Sheet on that date were as under: (in ₹)

Liabilities	B & Co.	C & Co.	Assets	B & Co.	C & Co.
Due to X & Co.	1,20,000	–	Cash in Hand	30,000	15,000
Due to B & Co.	–	1,50,000	Cash at Bank	45,000	60,000
Other Creditors	1,80,000	1,74,000	Due from C & Co.	1,50,000	–
Reserve	75,000	1,50,000	Due from X & Co.	–	90,000
Capitals			Other Debtors	2,40,000	3,00,000
A	3,60,000	–	Stock	1,80,000	2,10,000
B	2,40,000	3,00,000	Furniture	30,000	9,000
C	–	1,50,000	Vehicles	–	2,40,000
			Machinery	2,25,000	–
			Building	75,000	–
Total	9,75,000	9,24,000	Total	9,75,000	9,24,000

The amalgamated Firm took over the business on the following terms –

- Goodwill of B & Co. was worth ₹ 1,80,000 and that of C & Co. ₹ 1,50,000. Goodwill Account was not to be opened in the books of the New Firm, the adjustments being recorded through Capital Accounts of the Partners.
- Building, Machinery and Vehicles were taken over at ₹ 1,50,000, ₹ 2,70,000 and ₹ 3,00,000.
- Provisions for Doubtful Debts has to be carried forward at ₹ 12,000 in respect of Debtors of B & Co. and ₹ 15,000 in respect of Debtors of C & Co.

You are required to:

(a) Compute the adjustments necessary for Goodwill.

(b) Pass the Journal Entries in the books of ABC & Co. assuming that Excess / Deficit Capital (taking C's Capital as base) with reference to share in profits are to be transferred to Current Accounts.

Solution: **Similar to Page A.2.74, Illustration 43**

1. Adjustment for Raising and Writing off of Goodwill

Particulars		A	B	C	Total
Goodwill of B & Co. (raised in 3:1)		1,35,000	45,000	–	1,80,000
Goodwill of C & Co. (raised in 2:1)		–	1,00,000	50,000	1,50,000
Total	**(Cr.)**	**1,35,000**	**1,45,000**	**50,000**	**3,30,000**
Written off in New Ratio(3:2:1)	**(Dr.)**	1,65,000	1,10,000	55,000	3,30,000
Difference		**Dr. 30,000**	**Cr. 35,000**	**Dr. 5,000**	**–**

2. Journal Entries in the Books ABC & Co.

	Particulars		Dr. (₹)	Cr. (₹)
1.	A's Capital A/c	Dr.	30,000	
	C's Capital A/c	Dr.	5,000	
	To B's Capital A/c			35,000
	(Being adjustment in Capital A/c consequent to raising and writing off Goodwill, as per agreement) **(Note 1 above)**			

	Particulars		Dr. (₹)	Cr. (₹)
2.	Cash A/c	Dr.	30,000	
	Bank A/c	Dr.	45,000	
	C & Co. A/c	Dr.	1,50,000	
	Debtors A/c	Dr.	2,40,000	
	Stock A/c	Dr.	1,80,000	
	Furniture A/c	Dr.	30,000	
	Machinery	Dr.	2,70,000	
	Building A/c	Dr.	1,50,000	
	To X & Co. A/c			1,20,000
	To Creditors A/c			1,80,000
	To Provision for Doubtful Debts A/c			12,000
	To A's Capital A/c			4,97,250
	To B's Capital A/c			2,85,750
	(Being Sundry Assets and Liabilities of B & Co. taken over at agreed values)			
3.	Cash A/c	Dr.	15,000	
	Bank A/c	Dr.	60,000	
	X & Co A/c	Dr.	90,000	
	Debtors A/c	Dr.	3,00,000	
	Stock A/c	Dr.	2,10,000	
	Furniture A/c	Dr.	9,000	
	Vehicle A/c	Dr.	3,00,000	
	To B & Co. A/c			1,50,000
	To Provision for Doubtful Debts A/c			15,000
	To Other Creditors A/c			1,74,000
	To B's Capital A/c			4,30,000
	To C's Capital A/c			2,15,000
	(Being Sundry Assets and Liabilities of C & Co. taken over at agreed values)			
4.	B & Co. A/c	Dr.	1,50,000	
	To C & Co. A/c			1,50,000
	(Being mutual indebtedness of B & Co. & C & Co. cancelled on taking over of two Firms)			
5.	A's Current A/c	Dr.	1,62,750	
	To A's Capital A/c			1,62,750
	(Being amount credited to A's Capital A/c to being Capital in new PSR) **(WN 2 below)**			
6.	B's Capital A/c	Dr.	3,30,750	
	To B's Current A/c			3,30,750
	(Being B's Capital A/c transferred to B's Current A/c to reduce the balance in Capital A/c in new PSR) **(WN 2 below)**			

Working Notes: **1. Balance of Capital Accounts at the time of amalgamation of Firms**

(a) B & Co.

Particulars	A	B	Total
As per Balance Sheet	3,60,000	2,40,000	6,00,000
Add: Reserves (in 3:1)	56,250	18,750	75,000
Add: Profit on Revaluation (45,000 on M/c + 75,000 on Building)(in 3:1)	90,000	30,000	1,20,000
Less: Loss on creation of Provision for Doubtful Debts	(9,000)	(3,000)	(12,000)
Total	**4,97,250**	**2,85,750**	**7,83,000**

(b) C & Co.

Particulars	A	B	Total
As per Balance Sheet	3,00,000	1,50,000	4,50,000
Add: Reserves (in 2:1)	1,00,000	50,000	1,50,000
Add: Profit on Revaluation (Vehicle ₹ 60,000 (in 2:1)	40,000	20,000	60,000
Less: Loss on creation of Provision for Doubtful Debts	(10,000)	(5,000)	(15,000)
Total	**4,30,000**	**2,15,000**	**6,45,000**

2. Balance of Capital A/c in the Balance Sheet of New Firm as on 31st October

Particulars		A	B	C	Total
Balance as taken over from	B & Co.	4,97,250	2,85,750		7,83,000
	C & Co.	–	4,30,000	2,15,000	6,45,000
Total Balance		4,97,250	7,15,750	2,15,000	14,28,000
(+)/ (–) Adjustment for Goodwill **(Note 1 above)**		(30,000)	35,000	(5,000)	Nil
Capital Balance after Adjustment for Goodwill		4,67,250	7,50,750	2,10,000	14,28,000
Less: Revised Total Capital ₹ 12,60,000 **(Note)** in New PSR 3:2:1		6,30,000	4,20,000	2,10,000	12,60,000
Balance transfer to Current Account		**(Dr.) 1,62,750**	**(Cr.) 3,30,750**	**–**	**1,68,000**

Note: C's Capital ₹ 2,10,000 is 1/6th of total. Therefore, Total Capital is 12,60,000 (2,10,000 × 6/1).

Question 7(a): AS – 20 Basic and Diluted EPS N 12 (4 Marks)

No. of Equity Shares Outstanding	50,00,000
Basic Earnings per Share	₹ 2.00
No. of 12% Convertible Debentures of ₹ 100 each (Each Debenture is convertible into 10 Equity Shares.)	1,00,000
Tax Rate	30%

Compute Diluted Earnings per Share. Working Note should form part of the answer.

Solution: **Similar to Page B.7.16, Q.No.38 [M 10]**

Computation of Basic and Diluted EPS

Particulars	For Basic EPS	Adjustment for Dilution	For Diluted EPS
(1)	**(2)**	**(3)**	**(4) = (2) + (3)**
1. Net Profit for the period attributable for Equity Shareholders	EPS ₹ 2 × 50,00,000 Shares = ₹ 1,00,00,000	See **Note** = ₹ 8,40,000	₹ 1,08,40,000
2. Weighted Average No. of Equity Shares	Given 50,00,000	1,00,000 × 10 = 10,00,000	60,00,000
3. EPS = (1) ÷ (2)	Basic EPS = ₹ 2.00		Diluted EPS = ₹ 1.8067

Note: Tax Adjusted Interest on Convertible Debentures = Interest × (100% – Tax Rate)

= (1,00,000 × 100 × 12%) × (100% – 30%)

= 12,00,000 × 70% = ₹ 8,40,000