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PAPER – 1 : ADVANCED ACCOUNTING

QUESTIONS

1. Mr. A, a trader started a business on 01.04.2006 with Rs. 12,00,000 as 60,000 units of Rs.20 each. During the financial year ending on 31.3.2007, he sold the stock for Rs.30 each.

   In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mr. A in the year 2006-2007 as per-

   (a) Financial capital maintenance at historical cost.

   (b) Financial capital maintenance at current purchasing power taking average price index at the beginning and at the end of the year as 100 and 120 respectively.

   (c) Physical capital maintenance when the cost price of the goods at the end of the year is Rs.25 per unit.

2. You have to prepare the cash flow statement as per AS 3, from the given below Balance Sheet of Mudra Ltd.:

Balance Sheet

	1-1-2007 Rs.	31-12-2007 Rs.		1-1-2007 Rs.	31-12-2007 Rs.
Share capital	25,000	30,000	Fixed Asset	50,000	60,000
Reserves	10,000	12,000	Less : Dep. Provision	20,000	25,000
P & L A/c	5,000	7,000	Net fixed asset	30,000	35,000
Loans	20,000	17,000	Investment	10,000	7,000
Current liability:			Current assets:		
Trade creditors	7,000	7,500	Stock	20,000	22,000
Expenses creditors	2,000	1,500	Debtors	10,000	7,000
Interest payable	1,500	2,000	Cash and bank	1,500	8,000
Proposed dividend	2,500	13,000	Preliminary expenses	1,500	1,000
	73,000	80,000		73,000	80,000

Other Information:

1. Investment costing Rs. 3,000 were sold for Rs. 5,000 during the year;
2. Interest for the year was Rs. 3,000; and
3. Interest on investment Rs. 1,000.

3. Hurry-up Company Limited was incorporated on 1st April to take over as from 1st January in the same year the existing business of Busy Brothers. Under the take over agreement all profits made from 1st January belongs to the company. The purchase consideration was Rs.7,00,000. The vendors received half of it in cash on 1st July in the same year together with interest at 10 percent per annum. For other half of the purchase consideration, they were allotted 3,500 fully paid up shares of Rs.100 each in the Company. The following balances appeared in the Company's Ledger as at 31st December:

	Rs.		Rs.
Share Capital: 4,500 shares of Rs.100 each fully paid (including vendors' shares)	4,50,000	Preliminary Expenses (These are to be fully written off)	8,000
Bank Overdraft	1,65,000	Salaries and Wages	48,000
Sundry Creditors	65,000	Rent Received	13,000
Fixed Deposits Received	35,000	Rates and Taxes	7,000

Freehold Land at Cost	50,000	Repairs to Building	3,000
Building at Cost	1,30,000	Miscellaneous Expenses	22,000
Furniture and Fixtures at Cost	15,000	Directors' Fees	2,400
Transport Vehicle at Cost	35,000	Interest to Vendors	17,500
Stock-in-trade on 1st January	4,20,000	Purchases	7,70,000
Book Debts	95,000	Sales	9,10,000
Cash on Hand	12,000	Goodwill	3,100

The stock in-trade as at 31st December amounted to Rs.4,80,000.

Bad debts amounting to Rs.1,000 out of which Rs.500 related to book debts taken over by the Company, have to be written off and a provision of Rs.5,000 to be made for doubtful debtors as at 31st December.

Depreciation has to be written off on Building at 5%; Furniture and Fixtures at 10% and Transport Vehicles at 20%.

You are required to prepare (a) a Profit and Loss Account for the period from 1st January to 31st December and to compute the profit prior to incorporation. For the purpose of determining the profit prior to incorporation you should assume the turnover to be spread evenly over the year and (b) Balance Sheet as on 31st December.

4. The balance sheet of Overcome Ltd. before reconstruction is:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Authorised and issued capital:		Building at cost less depreciation	4,00,000
15,000 Equity shares of Rs.50 each	7,50,000	Plant at cost less depreciation	2,68,000
12,000 7% Preference shares of Rs. 50 each	6,00,000	Trademarks and goodwill at cost	3,18,000
(Note: Preference dividend is in arrear for five years)		Stock	4,00,000
Loan	5,73,000	Debtors	3,28,000
Sundry creditors	2,07,000	Preliminary expenses	11,000
Other Liabilities	35,000	Profit and loss A/c	4,40,000
	21,65,000		21,65,000

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both classes of shareholders. A summary of the scheme is as follows:

a. The equity shareholders have agreed that their share of Rs. 50 should be reduced to Rs. 2.50 by cancellation of Rs. 47.50 per share. They have also agreed to subscribe for three new equity shares of Rs. 2.50 each for each equity share held.

b. The preference shareholders have agreed to cancel the arrears of dividends and to accept for each Rs. 50 share, 4 new 5% preference shares of Rs. 10 each, plus 6 new equity shares of Rs. 2.50 each, all credited as fully paid.

c. Lenders to the company for Rs. 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of Rs. 10 each and 12,000 new equity shares of Rs. 2.50 each.

d. The directors have agreed to subscribe in cash for 40,000 new equity shares of Rs. 2.50 each, in addition to any shares to be subscribed by them under (a) above.

e. Of the cash received by the issue of new shares, Rs. 2,00,000 is to be used to reduce the loan due by the company.

f. The equity share capital cancelled is to be applied:

   i. to write off the preliminary expenses;

   ii. to write off the debit balance in the Profit and loss A/c; and

   iii. to write off Rs. 35,000 from the value of plant.

   Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of company after reconstruction. The nominal capital as reduced is to be increased to the old figures of Rs. 6,50,000 for preference share capital and Rs. 7,50,000 for equity share capital.

5. The undermentioned balances (all figures in lakhs) form part of the Trial Balance of the Everybody Assurance Co. Ltd., as on 31st March, 2007:-

   Amount of Life Assurance Fund at the beginning of the year Rs.14,70,562; claims by death Rs.76,980; claims by maturity Rs.56,420; premiums Rs.2,10,572; expenses of management Rs.19,890; commission Rs.26,541; consideration for annuities granted Rs.10,712; interests, dividends and rents Rs.52,461; income tax paid on profits Rs.3,060; surrenders Rs.21,860; annuities Rs.29,420; bonus paid in cash Rs.9,450; bonus paid in reduction of premiums Rs.2,500; preliminary expenses balance Rs.600; claims admitted but not paid at the end of year Rs.10,034; annuities due but not paid Rs.2,380; capital paid up Rs.14,00,000; Government securities Rs.24,90,890; Sundry Fixed Assets Rs.4,19,110.

   Prepare Revenue Account and the Balance Sheet after taking into account the following:

   (a) Claims covered under reinsurance, Rs.10,000 lakhs

   (b) Further claims intimated, Rs.8,000 lakhs

   (c) Further bonus utilized in reduction of premium, Rs.1,500 lakhs

   (d) Interest accrued, Rs.15,400 lakhs;

   (e) Premiums outstanding Rs.7,400 lakhs.

6. Computer point sells computers on Hire-purchase basis at cost plus 25%. Terms of sale are Rs.5,000 down payment and eight monthly instalments of Rs.2,500 for each computer.

   The following transactions took place during the financial year 2006-07:

Number of instalments not yet due as on 1.4.2006	= 25
Number of instalments due but not collected as on 1.4.2006	= 5

   During the financial year 240 Computers were sold. Out of the above sold computers during the year the outstanding position were as follows as on 31.3.2007:

   Instalments not yet due:

   (i) Eight Instalments on 50 Computers.

   (ii) Six Instalments on 30 Computers.

   (iii) Two Instalments on 10 Computers.

   Instalments due but not collected:

   Two instalments on 5 computers during the year. Two computers on which five instalments were due and two instalments not yet due were repossessed out of sales effected during current year. Repossessed stock is valued at 50% of cost. All instalments have been received. You are asked to prepare Hire-purchase Trading Account for the year ending on 31.3.2007:

7. The following was the Balance Sheet of 'A' and 'B', who were sharing Profits and Losses in the ratio of 2:1 on 31.12.2006:

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Plant and Machinery	12,00,000
A	10,00,000	Building	9,00,000
B	5,00,000	Sundry Debtors	3,00,000
Reserve Fund	9,00,000	Stock	4,00,000
Sundry Creditors	4,00,000	Cash	1,00,000
Bills payable	1,00,000		
	29,00,000		29,00,000

They agreed to admit 'C' into the partnership on the following terms:

(i) The Goodwill of the firm was fixed at Rs.1,05,000.

(ii) That the value of Stock and Plant and Machinery were to be reduced by 10%.

(iii) That a provision of 5% was to be created for Doubtful Debts.

(iv) That the Building Account was to be appreciated by 20%.

(v) There was an unrecorded liability of Rs.10,000.

(vi) Investments worth Rs.20,000 (Not mentioned in the Balance Sheet) were taken into account.

(vii) That the value of Reserve fund, the values of Liabilities and the values of Assets other than Cash are not to be altered.

(viii) 'C' was to be given one-fourth share in the Profit and was to bring capital equal to his share of Profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital Accounts of the Partners and the Balance Sheet of the Newly Reconstituted firm.

8. On 2.6.2007 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

	Rs.
Stock at cost on 1.4.2006	1,35,000
Stock at 90% of cost on 31.3.2007	1,62,000
Purchases for the year ended 31.3.2007	6,45,000
Sales for the year ended 31.3.2007	9,00,000
Purchases from 1.4.2007 to 2.6.2007	2,25,000
Sales from 1.4.2007 to 2.6.2007	4,80,000

Sales upto 2.6.2007 includes Rs.75,000 being the goods not dispatched to the customers. The sales invoice price is Rs.75,000.

Purchases upto 2.6.2007 includes a machinery acquired for Rs.15,000.

Purchases upto 2.6.2007 does not include goods worth Rs.30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire.

Value of stock salvaged from fire Rs.22,500 and this has been handed over to the insurance company.

The insurance policy is for Rs.1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

9. From the following details of advances of X Bank Limited, calculate the amount of provisions to be made in profit and loss account for the year ended 31.3.2007:

Asset classification	Rs. in lakhs
Standard	6,000
Sub-standard	4,400
Doubtful:	
For one year	1,800
For two years	1,200
For three years	800
For more than three years	600
Loss assets	1,600

10. X Electricity Company Limited decides to replace one of its old plants with a modern one in April, 2007. The plant when installed in the year 2000, costed the company Rs.26 lakhs, the components of materials and labour being in the ratio of 7:3. It is ascertained that the cost of labour and materials have risen by 30% and 25% respectively. The cost of new plant is Rs.66 lakhs and in addition old materials worth Rs.92,000 are reused. Old materials worth Rs.1,68,000 are sold. Under double account system compute the following:

    (i) The amount to be written off to Revenue A/c.

    (ii) The amount to be capitalized.

    (iii) Draw up the necessary Journal entries.

    (iv) Draw up the Replacement Account.

11. The following amounts are due to Mr. PK by Mr. SK:

Due Dates (Inclusive grace days)	Amount (Rs.)
25.6.2006	2,500
15.8.2006 (Independence day)	3,500
8.9.2006	5,000
29.10.2006 (Sunday)	4,000

Mr. SK wants to pay off on 31.7.2006.

Interest rate of 9% p.a. is taken into consideration.

Determine the amount to be paid by the average due date method.

12. Mr. Parth does not maintain complete records of his business but gives you the following information:

	31st March, 2007	31st March, 2006
	Rs.	Rs.
Machineries	2,00,000	1,50,000
Sundry Creditors	86,000	?
Sundry Debtors	?	93,000
Stock-in-trade	70,000	50,000
Cash in hand	2,600	1,500
Furniture	27,000	30,000
Cash at Bank	15,600	18,700

His cash transactions for the year ended 31st March, 2007 included the following (besides certain other items):

	Rs.
Payments to creditors	4,10,000
Cash Sales (25% of total sales)	1,70,000
Business expenses	82,000
Cash purchases	1,30,000
Collection from debtors	5,27,000
Withdrawn for household expenses	30,000

He maintain a uniform rate of gross profit of 25% on turnover. Outstanding business expenses on 31st March, 2007 amounted to Rs.5,000. Addition of new machinery was made on October 1, 2006. Some old furniture (Book Value Rs.6,000) was sold during the year and the proceeds credited to Furniture Account.

Provide depreciation on Machineries @ 15% p.a. and on Furniture @ 10% p.a. (excluding sold item).

Mr. Parth requests you to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2007 and a Balance Sheet as on that date.

13. X Ltd. and Y Ltd. were amalgamated on and from 1st April, 2007 and formed a new company Z Ltd. to takeover the business of X Ltd. and Y Ltd. The Balance Sheets of X Ltd. and Y Ltd., as on 31st March, 2007 are as follows:

(Rs. in Crores)

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Share Capital:			Land and Buildings	38	25
Equity share of Rs.10 each	50	45	Plant and Machinery	24	17
10% Preference shares of Rs.100 each	20	14	Investments	10	6
Revaluation Reserve	10	6	Stock	22	15
General Reserve	12	8	Sundry Debtors	25	20
Investment Allowance Reserve	5	4	Bills Receivable	5	4
Profit & Loss Account	8	6	Cash at Bank	16	13
15% Debentures of Rs.100 each (Secured)	4	5			
Sundry Creditors	19	7			
Bills Payable	12	5			
	140	100		140	100

Additional Information:

(1) Z Ltd. will issue 6 equity shares for 10 equity shares of X Ltd. and 2 equity shares for 5 equity shares of B Ltd. The shares are issued @ Rs.30 each having a face value of Rs.10 per share.

(2) Preference shareholders of two companies are issued equivalent number of 15% preference shares of Z Ltd. at a price of Rs.120 per share (face value Rs.100).

(3) 15% Debentureholders of X Ltd. and Y Ltd. are discharged by Z Ltd. issuing such number of its 18% Debentures of Rs.100 each so as to maintain the same amount of interest.

(4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of Z Ltd. after amalgamation. The amalgamation took place in the nature of purchase.

14. The following particulars are obtained from books of a Self Ltd. for the year ended 31st March, 2007:

	Rs.		Rs.
Cash Sales	25,000	Bills Receivable dishonoured	2,500
Credit Purchases	2,80,000	Returns Inward	8,500
Collection from Debtors	4,25,000	Payment to creditors	1,62,000
Bills Receivable drawn	20,000	Discount allowed	3,000
Discount Received	2,500	Debtors' cheque returned dishonoured	7,500
Cash Purchases	12,000	Credit Sales	4,90,000
Bills Payable paid	6,500	Bills Receivables collected	10,000
Recovery of Bad Debts	1,500	Returns outward	3,700
Bills Receivable discounted with Bank	8,000	Bills Receivable endorsed to creditors	7,900
Interest charged on overdue Customer's Accounts	1,200	Overpayments refunded by suppliers	600
Endorsed Bills Receivable dishonoured (noting charges Rs.75)	5,500	Bad Debts	1,000
Bills Payable accepted	16,000	Opening Balances	
		Sundry Debtors	78,000
		Sundry Creditors	85,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

15. The Receipts and Payments Account of Trustwell Club prepared on 31st March, 2007 is as follows.

Receipts and Payments Account

Dr.				Cr.
Receipts	Amount	Payments		Amount
		Rs.		Rs.
To Balance b/d		450	By Expenses (including payment for sports material Rs. 2,700)	6,300
To Annual income from subscription	4,590			
Add: Outstanding of last year received this year	180			
	4,770			
Less: Prepaid of last year	90	4,680	By Loss on sale of furniture (cost price Rs. 450)	180
To Other fees		1,800		
To Donation for building		90,000	By Balance c/d	90,450
		96,930		96,930

Additional information:

Trustwell club had balances as on 1.4.2006:-

Furniture Rs. 1,800; investment at 5% Rs. 27,000;

Sports material Rs. 6,660;

Balance as on 31.3.2007:

Subscription receivable Rs. 270;

Subscription received in advance Rs. 90;

Stock of sports material Rs. 1,800.

Do you agree with above receipts and payments account? If not, prepare correct receipts and payments account and income and expenditure account for the year ended 31st March, 2007 and balance sheet as on that date.

16. M/s Balraam Ltd. of Mumbai sends goods to its Chennai Branch at cost plus 25 percent. The following particulars are available in respect of the Branch for the year ended 31st March, 2007:

	Rs.
Opening Stock at Branch a t cost to Branch	80,000
Goods sent to Branch at invoice price	12,00,000
Loss-in-transit at invoice price	15,000
Pilferage at invoice price	6,000
Sales	12,19,000
Expenses	60,000
Closing stock at Branch at cost to Branch	40,000
Recovered from Insurance Company against loss-in-transit	10,000

Show following Ledger Accounts in the head office books:-

(a) Branch Stock Account.

(b) Goods sent to Branch Account

(c) Branch Adjustment Account

(d) Branch Profit and Loss Account.

17. The Balance Sheet of Lost Limited as on 31st March, 2007

	Rs.		Rs.
Share Capital:		Fixed Assets:	
1,000, 6% Preference Shares of Rs.100 each fully paid	1,00,000	Machinery	1,90,000
2,000 Equity Shares of Rs.100 each fully paid	2,00,000	Furniture	10,000
2,000 Equity shares of Rs.100 each Rs.75 paid	1,50,000	Current Assets:	
Bank Loan (secured on stock)	1,00,000	Stock	1,20,000
Current liabilities and Provision:		Debtors	2,40,000
Creditors	3,50,000	Cash at Bank	50,000
Income-tax Payable	10,000	Misc. Expenditure:	
		Profit and Loss Account	3,00,000
	9,10,000		9,10,000

The company went into liquidation on 1st April, 2007. The assets were realized as follows:

	Rs.
Machinery	1,66,000
Furniture	8,000

Stock	1,10,000
Debtors	2,30,000
Liquidation expenses amounted to	4,000

The liquidators are entitled to a commission at 2% on amount paid to unsecured creditors. Calls on partly paid shares were made but the amount due on 200 shares were found to be irrecoverable.

Prepare Liquidator's Statement of Account.

18. Answer the following (Give adequate working notes in support of your answer):

(a) Match fund balance of Rs.10,000, income from matches Rs.5,000 and match expenses Rs.12,000 are shown in the Receipt and Payment A/c of a sports club. Where will the following details be shown in the financial statements and how?

(b) "Sometimes, receipts and payments account given in the question shows opening and closing bank balance as per pass book". Explain

(c) What will be the treatment of difference of insurance premium when Insurance premium amount in receipt and payment account is Rs.200 and in Income and expenditure account is Rs.120?

(d) Describe the term 'Average due date'.

(e) Out of goods costing Rs. 1,00,000, ¾ are destroyed by fire. Find out the amount of claim when sum insured with average clause Rs.80,000 and when sum insured without average clause Rs.50,000.

(f) Mr. A, one of the partner of the firm withdrew Rs.2,000 at the beginning of every month. Interest on drawings is charged at the rate of 12% p.a. Calculate the amount of interest on drawings.

(g) A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admitted C as a partner for 2/5 share in the profits, which he acquired equally from both A and B. Calculate new profit and loss sharing ratio.

(h) A, B and C are partners in a firm sharing profits in the ratio of 5:3:2. As per agreement, C's share of profit shall not amount to less than Rs.10,000 in any year. Any excess payable to C on amount of such guarantee shall be borne by A and B in the ratio of 3:2. Profit for the year is Rs.30,000. Show the share of profits of A, B and C.

(i) A firm earned profits of Rs.8,000, Rs.10,000, Rs.12,000 and Rs.16,000 during the year 2003, 2004, 2005 & 2006 respectively. The firm has average capital investment of Rs.50,000. A fair rate of return on investment is 15% p.a. Calculate the goodwill of the firm based on three years of purchase of average super profits of last four years.

19. (a) Explain the significance of average clause in a fire insurance policy?

(b) Differentiate between sacrificing ratio and gaining ratio.

(c) What is memorandum revaluation account? What are its affects? Why is it necessary to revalue assets and liabilities on reconstitution of the firm?

(d) What is Customized Accounting software and how is it developed?

(e) How does the work of an Accountant get ease by preparing the self-balancing ledgers?

(f) Explain the benefits and limitations of setting the accounting standards.

(g) What are the basic requirements mentioned by SEBI (Disclosure and Investor Protection) Guidelines, 2000 to be fulfilled by the companies while issuing bonus shares?

20. Theory questions based on Accounting Standards

(a) Write short note on Effect of Uncertainties on Revenue Recognition.

(b) Explain the treatment of Refund of Government Grants as per AS 12.

(c) Briefly explain disclosure requirements for Investments as per AS 13.

(d) List the criteria to be applied for rating an enterprise as Level-I enterprise for the purpose of Compliance of Accounting standards in India.

(e) Explain the provisions relating to valuation of fixed assets in special cases.

(f) State the different types of Leases contemplated in Accounting Standard 19 and discuss briefly.

(g) When Capitalisation of borrowing cost should cease as per Accounting Standard 16?

(h) Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS–14.

(i) How is software acquired for internal use accounted for under AS-26?

21. Practical problems based on Accounting Standards

(a) An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair value of the equipment are Rs. 3,00,000. The amount will be paid in 3 instalments and at the termination of lease lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is Rs. 40,000. The (internal rate of return) IRR of the investment is 10%. The present value of annuity factor of Re. 1 due at the end of 3rd year at 10% IRR is 2.4868. The present value of Re. 1 due at the end of 3rd year at 10% rate of interest is 0.7513.

(i) State with reason whether the lease constitutes finance lease.

(ii) Calculate unearned finance income.

(b) Top & Top Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of Rs. 50 crore in capital assets, received Rs. 10 crore from the Government in January, 2007 (accounting period being 2006-2007). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2007.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not.

(c) X Ltd. acquired a fixed asset for Rs. 50,00,000. The estimated useful life of the asset is 5 years. The salvage value after useful life was estimated at Rs.5,00,000. The salvage value after useful life was estimated at Rs.5,00,000. The State Government gave a grant of Rs.10,00,000 to encourage the asset acquisition. At the end of the second year, the subsidy of the State Government became refundable. What is the fixed asset value after refund of grant/subsidy to the State Government but before amortising the asset value at the end of the second year?

(d) ABC Ltd. was making provision for non-moving stocks based on no issues for the last 12 months upto 31.3.2006.

The company wants to provide during the year ending 31.3.2007 based on technical evaluation:

Total value of stock	Rs. 100 lakhs
Provision required based on 12 months issue	Rs. 3.5 lakhs
Provision required based on technical evaluation	Rs. 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

(e) In May, 2006 Speed Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2007 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was Rs. 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2007 amounted to Rs. 25 lakhs.

Can Rs. 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building?

(f) The Company X Ltd., has to pay for delay in Cotton clearing charges. The company up to 31.3.2006 has included such charges in the valuation of Closing stock. This being in the nature of interest, X Ltd. decided to exclude such charges from Closing stock for the year 2006-07. This would result in decrease in profit by Rs.5 lakhs. Comment.

(g) The Board of directors of X Ltd. decided on 31.3.2007 to increase sale price of certain items of goods sold retrospectively from 1st January, 2007. As a result of this decision the company has to receive Rs.5 lakhs from its customers in respect of sales made from 1.1.2007 to 31.3.2007. But the Company's Accountant was reluctant to make-up his mind. You are asked to offer your suggestion.

(h) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS-3:

		Rs. (in lacs)	Rs.(in lacs)
Net Profit			60,000
Add:	Sale of Investments		70,000
	Depreciation on Assets		11,000
	Issue of Preference Shares		9,000
	Loan raised		4,500
	Decrease in Stock		12,000
			1,66,500
Less:	Purchase of Fixed Assets	65,000	
	Decrease on Creditors	6,000	
	Increase in Debtors	8,000	
	Exchange gain	8,000	
	Profit on sale of investments	12,000	
	Redemption of Debenture	5,700	
	Dividend paid	1,400	
	Interest paid	945	1,07,045
			59,455
Add:	Opening cash and cash equivalents		12,341
Closing cash and cash equivalents			71,796

(i) Shivaji Ltd. purchased Fixed assets worth Rs.90,00,000 on 1st April, 2002. The life of the assets is 10 years and they are to be depreciated on straight line basis. The assets were revalued on 1st April, 2004 when 50% of the assets was assessed at 10% less than the book value, and the remaining assets were revalued at 15% higher than book value. The assets were ultimately sold on 1.4.2006 for Rs.54,80,000. Excess depreciation on revaluation, if any, should be charged to Revaluation Reserve.

Show Fixed Assets A/c, Depreciation A/c and Revaluation Reserve A/c, supported by Workings wherever necessary.

SUGGESTED ANSWERS/HINTS

1. (a) Financial capital maintenance at historical costs

Opening Capital = Rs. 12,00,000 represented by 60,000 units at Rs. 20 per unit.

Goods sold @ Rs.30 each, therefore cash received = 60,000 units x Rs.30 each = Rs.18,00,000

Excess Capital = Rs. 18,00,000 – Rs. 12,00,000 = Rs. 6,00,000 (represented entirely by cash)

Mr. A can start another year by again purchasing 60,000 units at Rs. 20 per unit and selling them at Rs. 30 per unit. The whole process can repeat endlessly if there is no change in purchase price of the product. In this way, he can withdraw maximum Rs. 6,00,000 every year until there is change in the price.

(b) Financial capital maintenance at current purchasing power

Opening Capital = Rs. 12,00,000 represented by 60,000 units at Rs. 20 per unit.

Opening capital at closing price = (Rs. 12,00,000 / 100) x 120

= Rs. 14,40,000 in other words 60,000 units @ Rs. 24 each

Goods sold @ Rs.30 each, therefore cash received = 60,000 units x Rs.30 each = Rs.18,00,000

Excess Capital = Rs. 18,00,000 – Rs. 14,40,000 = Rs. 3,60,000

To keep the capital intact, Mr. A can withdraw maximum Rs. 3,60,000 in the current year.

(c) Physical capital maintenance

Current cost of opening stock = 60,000 x Rs. 25 = Rs. 15,00,000

Goods sold @ Rs.30 each, therefore cash received = 60,000 units x Rs.30 each = Rs.18,00,000

Excess Capital = Rs. 18,00,000 – Rs. 15,00,000 = Rs. 3,00,000.

The opening capital of Rs. 12,00,000 will not be sufficient to buy 60,000 units again at increased price Rs. 25 per unit. Therefore, drawings should be restricted to Rs. 3,00,000 only.

2. Cash flow statement for the year ended 31.12.2007

	Rs.	Rs.
Net cash flow from operating activities:		
Net profit before taxation (W.N.1)	7,000	
Add : Depreciation	5,000	
Add: Preliminary expenses written off	500	
Add: Interest expense	3,000	
Less: Interest on investment	(1,000)	
Less: Profit on sale of investment	(2,000)	
Operating profit before change in working capital	12,500	
Add: Decrease in debtors	3000	
Less: Increase in Stock	(2,000)	
Add: Increase in trade creditor	500	

Less: Decrease in expense creditor	(500)	
Cash generated from operations	13,500	
Less: Income-tax paid	nil	
Net cash from operating activities		13,500
Cash flow from investing activities:		
Fixed asset purchased	(10,000)	
Sale of investment	5,000	
Interest received on investment	1,000	
Cash used in investing activities		(4,000)
Cash flow from financing activities:		
Share capital issued	5,000	
Loan repaid	(3,000)	
Dividend Paid	(2,500)	
Interest paid (W.N.2)	(2,500)	
Cash used in financing activities		(3,000)
Net increase in cash and cash equivalent		6,500
Add: Cash and cash equivalents as on 1.1.2007		1,500
Cash and cash equivalents as on 31.3.2.007		8,000

Working Notes:

		Rs.
1.	Calculation of net profit before taxation:	
	Increase in P & L balance	2,000
	Add: Increase in reserves	2,000
	Add: Proposed dividend	3,000
	Net Profit	7,000
2.	Calculation of interest paid:	
	Interest expenses	3,000
	Add: Opening interest payable	1,500
		4,500
	Less: Closing interest payable	2,000
	Interest paid during the year	2,500

3. Trading Account of Hurry up Co. Ltd.

For the year ending 31st December……

		Rs.			Rs.
To	Opening Stock	4,20,000	By	Sales	9,10,000
To	Purchases	7,70,000	By	Closing Stock	4,80,000
To	Gross Profit c/d	2,00,000			
		13,90,000			13,90,000

Profit and Loss Account of Hurry up Co. Ltd.

For the year ending 31st December……

			Prior to Incorporation	After Incorporation			Prior to Incorporation	After Incorporation
			Rs.	Rs.			Rs.	Rs.
To	Salaries and Wages		12,000	36,000	By	Gross Profit b/d (1:3)	50,000	1,50,000
"	Miscellaneous Expenses		5,500	16,500	By	Rent Received (1:3)	3,250	9,750
"	Rates and Taxes		1,750	5,250				
"	Repairs to Building		750	2,250				
"	Preliminary Expenses		-	8,000				
"	Bad Debts		500	500				
"	Provision for Doubtful Debts		-	5,000				
"	Directors' fees		-	2,400				
"	Interest to Vendors		8,750	8,750				
"	Depreciation on :							
	Building @ 5%	6,500						
	Furniture @ 10%	1,500						
	Vehicle @ 20%	7,000						
		15,000	3,750	11,250				
"	Capital Reserve		20,250	---				
"	Net Profit		---	63,850				
			53,250	1,59,750			53,250	1,59,750

Balance Sheet of Hurry up Co. Ltd.

As at 31st December……

Liabilities	Rs.	Assets		Rs.
Share Capital:				
Authorised, Subscribed & Issued 4,500 shares of Rs.100 each fully paid	4,50,000	Fixed Assets: Goodwill Freehold Land at cost		 3,100 50,000
(of the above, 3,500 shares were allotted as fully paid to vendors for consideration other than cash)		Building at cost Less: Depreciation	1,30,000 6,500	 1,23,500
Reserves & Surplus:		Furniture & Fixtures	15,000	
Capital Reserve	20,250	Less: Depreciation	1,500	13,500
Profit & Loss Account	63,850	Transport Vehicle at cost	35,000	
Secured Loans	Nil	Less: Depreciation	7,000	28,000
Unsecured Loans:		Investments:		Nil
Bank Overdraft	1,65,000	Current Assets, Loans & Advances:		
Fixed Deposits received	35,000	Stock		4,80,000

Current Liabilities & Provisions:		Sundry Debtors	94,000*	
Sundry Creditors	65,000	Less: Provision for doubtful debts	5,000	89,000
		Cash in hand		12,000
	7,99,100			7,99,100

4. In the books of Overcome Ltd.

Journal Entries

	Particulars		Debit (Rs.)	Credit (Rs.)
1.	Reduction of equity capital			
	Equity share capital A/c (Face Value 50/-)	Dr.	7,50,000	
	To Equity share capital (Face Value Rs. 2.50) A/c			37,500
	To Capital Reduction A/c			7,12,500
2.	Right issue: (15,000X3=45,000 shares)			
	1. Bank A/c	Dr.	1,12,500	
	To Equity share application money A/c			1,12,500
	2. Equity share application money A/c		1,12,500	
	To Equity share capital			1,12,500
3.	Cancellation of arrears of preference dividend			
	NO ENTRY			
	On cancellation, arrears of preference dividend ceases to be a contingent liability and hence no further disclosure required.			
4.	Conversion of preference shares			
	7% Preference share capital A/c	Dr.	6,00,000	
	Capital Reduction A/c (balancing figure)	Dr.	60,000	
	To 5% Preference share capital (12,000X4X10)			4,80,000
	To Equity share capital (12,000 X 6 X 2.50)			1,80,000
5.	Conversion of loan			
	Loan A/c	Dr.	1,50,000	
	To 5% Preference share capital A/c			1,20,000
	To Equity share capital A/c			30,000
6.	Subscription by directors			
	i. Bank A/c	Dr.	1,00,000	
	To Equity share application money A/c			1,00,000
	ii. Equity share application money A/c	Dr.	1,00,000	
	To Equity share capital A/c			1,00,000
7.	Repayment of loan			
	Loan A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000

* Rs.95,000 – Rs.1,000

8. Utilisation of reconstruction surplus

Capital Reduction A/c	Dr.	6,52,500	
To Preliminary expenses A/c			11,000
To Profit and loss A/c			4,40,000
To Plant A/c			35,000
To Trademarks and goodwill A/c (Bal. Fig.)			1,66,500

Balance Sheet of Overcome Ltd. (and Reduced)

Liabilities		Rs.	Asset		Rs.
Authorised Share Capital:			Fixed Assets:		
3,00,000 Equity shares of Rs. 2.50 each		7,50,000	Building at cost less depreciation		4,00,000
60,000 Preference shares of Rs. 10 each		6,00,000	Plant cost less depreciation	2,68,000	
		13,50,000	Less: Reduced	(35,000)	2,33,000
Issued, subscribed and paid up capital:			Trademarks and Goodwill at cost	3,18,000	
1,84,000 equity shares of Rs. 2.50 each		4,60,000	Less: Reduced	(1,66,500)	1,51,500
60,000, 5% Preference shares of Rs.10 each		6,00,000	Current Assets: Stock		4,00,000
Secured and Unsecured loans:			Debtors		3,28,000
Loan	5,73,000		Bank		12,500
Less: Reduced	(3,50,000)	2,23,000			
Current Liabilities and Provisions:					
Sundry creditors		2,07,000			
Other liabilities		35,000			
		15,25,000			15,25,000

Capital Reduction A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Preference shareholders A/c	60,000	By Equity share capital	7,12,500
To Preliminary expenses A/c	11,000		
To Profit and loss A/c	4,40,000		
To Plant A/c	35,000		
To Trademarks and goodwill A/c	1,66,500		
	7,12,500		7,12,500

Bank A/c

Dr. Cr.

	Particulars	Rs.	Particulars	Rs.
To	Equity Share application A/c	1,12,500	By Loan A/c	2,00,000
To	Equity share application A/c	1,00,000	By balance c/d	12,500
		2,12,500		2,12,500

5. Everybody Assurance Co. Ltd.

Revenue Account for the year ended 31st March, 2007

Particulars	Schedule	Rs. in lakhs
Premiums earned – net	1	2,19,472
Income from Investments (W.N.2)		67,861
Other Income:		
Consideration for Annuities granted		10,712
Total (A)		2,98,045
Commission	2	26,541
Operating Expenses related to Insurance Business	3	19,890
Provision for Tax		3,060
Total (B)		49,491
Benefits Paid (Net)	4	1,96,130
Total (C)		1,96,130
Surplus (D) = (A) – (B)- (C) (Being Funds for Future Appropriation)		52,424

Balance Sheet as on 31st March, 2007

	Schedule	Rs. in lakhs
Sources of Funds		
Share Capital	5	13,99,400
Policyholders' Life Assurance Funds		14,70,562
		28,69,962
Funds for Future Appropriations		52,424
Total		29,22,386
Application of Funds		
Investments	8	24,90,890
Fixed Assets	10	4,19,110
Current Assets:		
Advances and Other Assets	12	32,800
Sub Total (A)		32,800
Current Liabilities:	13	20,414
Sub Total (B)		20,414
Net Current Assets (C) = (A)-(B)		12,386
Total		29,22,386

SCHEDULE-1	
Premium	
Premiums earned-net (W.N.1)	2,19,472
SCHEDULE - 2	
Commission Expenses	26,541
SCHEDULE - 3	
Operating Expenses Related to Insurance Business	19,890

SCHEDULE - 4

Benefits Paid (Net)

1.	Insurance Claims	
	(a) Claims by Death	84,980
	(b) Claims by Maturity	56,420
	(c) Annuities	29,420
	(d) Surrenders	21,860
	(e) Bonus in cash	9,450
	(f) Bonus in reduction of premiums (2,500 + 1,500)	4,000
2.	Amount ceded in reinsurance	
	Claims by Death	(10,000)
	Total	1,96,130

SCHEDULE -5

Share Capital

Called up and paid-up Capital	14,00,000
Less:Preliminary Expenses	600
Total	13,99,400

SCHEDULE -8

Investments

Government Securities	24,90,890
Total	24,90,890

SCHEDULE - 10

Fixed Assets	4,19,110
Total	4,19,110

SCHEDULE - 12

Advances and Other Assets

Other Assets

Interest accrued on investments	15,400
Outstanding premiums	7,400
Due from Reinsurers	10,000
Total	32,800

SCHEDULE - 13

Current Liabilities

Claims Outstanding	20,414
Total	20,414

Working Notes:

1.	Premiums received	2,10,572
	Add: Outstanding premium	7,400
	Covered by bonus utilized for reduction of premium	1,500
	Premiums earned (net)	2,19,472
2.	Interest, dividends and rents	52,461
	Add: Interest accrued	15,400
	Income from Investments	67,861

6. Hire Purchase Trading Account for the year ended 31.3.2007

Dr.		Rs.			Cr. Rs.
To	Opening H.P. Stock	62,500	By	Opening Stock Reserve $\frac{62{,}500}{125} \times 25$	12,500
To	Opening H.P. Debtors	12,500	By	Goods sold on H.P. A/c – Loading	12,00,000
To	Goods sold on H.P. (240 computers x Rs.25,000)	60,00,000	By	Cash Collected (W.N.1)	45,15,000
To	Closing Stock Reserve $\text{Rs.}15{,}00{,}000 \times \frac{25}{125}$	3,00,000	By	Repossessed goods (W.N.2)	20,000
To	Profit transferred to P& L A/c	8,97,500	By	Closing H.P. Debtors (10 x Rs.2,500)	25,000
			By	Closing H.P. Stock (600 x Rs.2,500)	15,00,000
		72,72,500			72,72,500

Working Notes:

1. Calculation of Cash Collected during the year

			Rs.
Down Payment received on 240 computers sold during the year (240 x Rs.5,000)			12,00,000
Number of Instalments due and collected:			
Total Instalments (8 instalments x 240 computers)		1,920	
Add: Opening H.P. Debtors		25	
Add: Opening H.P. Stock		5	
		1950	
Less: Closing H.P. Debtors (2 x 5)		10	
		1,940	
Less:Closing H.P. Stock on 31.3.2007	8 x 50 = 400		
	6 x 30 = 180		
	2 x 10 = 20	600	
		1,340	
Less:Repossessed computers (5 x 2 + 2 x 2)		14	
Total number of instalments received during the year		1,326	
Total amount of instalments received (1,326 instalments x Rs.2,500)			33,15,000
Instalments collected during the year			45,15,000

2. Value of repossessed computers:

H.P. Price of two repossessed computers =[Rs.5,000 + (8 x Rs. 2,500)] x 2 computers = Rs.50,000

Cost price of the repossessed computers= $\frac{\text{Rs.}50{,}000}{125} \times 100$ = Rs. 40,000

Value of repossessed computers = Rs.40,000 x 50% = Rs.20,000

Alternatively, Hire Purchase Trading Account can also be prepared in the following manner:

Hire Purchase Trading Account for the year ended 31.3.2007

Dr.						Cr.
			Rs.			Rs.
To	Opening H.P. Stock		62,500	By	Opening Stock Reserve $\frac{62,500}{125} \times 25$	12,500
To	Opening H.P. Debtors		12,500	By	H.P. Sales A/c (W.N.1)	45,65,000
To	Goods sold on H.P. (240 computers x Rs.25,000)		60,00,000	By	Goods sold on H.P. A/c – Loading	12,00,000
To	Bad debts (W.N.3)		5,000	By	Closing H.P. Stock (600 x Rs.2,500)	15,00,000
To	Loss on goods repossessed	8,000				
	Less: Instalments not due	8,000	Nil			
To	Closing Stock Reserve $\frac{15,00,000}{125} \times 25$		3,00,000			
To	Profit transferred to P& L A/c		8,97,500			
			72,77,500			72,77,500

Working Notes:

1. Calculation of Hire Purchase Sales

	Rs.
Cash collected (As per the working note of the Alternative solution 1)	45,15,000
Add: Instalments due but not collected (including repossessed computers) (2 x Rs.2,500 x 5) + (5 x Rs.2,500 x 2)	50,000
	45,65,000

2. Calculation of loss on repossessed computers

Cost of instalments due but not collected $\frac{(2 \text{ x } 2,500 \text{ x } 5)}{125} \times 100$	20,000
Cost of instalments not yet due $\frac{(2 \text{ x } 2,500 \text{ x } 2)}{125} \times 100$	8,000
	28,000
Less : Value of repossessed computers $\left[\frac{(2 \text{ x } 25,000)}{125} \times 100\right] \times 50\%$	20,000
Loss	8,000

3. Bad debts (in respect of repossessed computers)

Instalments due but not collected (5 x Rs.2,500 x 2)		25,000
Cost of installments not due $\frac{(2 \times \text{Rs. } 2,500 \text{ x } 2)}{125} \times 100$		8,000
		33,000
Less : Cost of instalments due but not collected		
$\frac{(5 \text{ x Rs.}2,500 \text{ x } 2)}{125} \times 100$	20,000	
Cost of instalments not yet due		

$\frac{(2 \times \text{Rs. } 2{,}500 \times 2)}{125} \times 100$	8,000	28,000
Bad debts		5,000

7. Memorandum Revaluation Account

		Rs.			Rs.
To	Stock	40,000	By	Building	1,80,000
To	Plant & Machinery	1,20,000	By	Investment	20,000
To	Provision for Doubtful debts	15,000			
To	Unrecorded liability	10,000			
To	Profit transferred to Partners' Capital A/cs A = $\frac{2}{3}$ = 10,000 B = $\frac{1}{3}$ = 5,000	15,000			
		2,00,000			2,00,000
To	Reversal of Credit Entries of Revaluation A/c	2,00,000	By	Reversal of Debit Entries of Revaluation A/c	1,85,000
			By	Loss transferred to Partners' Capital A/cs A = $\frac{2}{4}$ = 7,500 B = $\frac{1}{4}$ = 3,750 C = $\frac{1}{4}$ = 3,750	15,000
		2,00,000			2,00,000

Partners' Capital Accounts

		A	B	C			A	B	C
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
To	Memorandum Revaluation A/c	7,500	3,750	3,750	By	Balance b/d	10,00,000	5,00,000	-
To	Reserve Fund	4,50,000	2,25,000	2,25,000	By	Reserve Fund	6,00,000	3,00,000	-
To	A (W.N.3)	-	-	17,500	By	C (W.N.3)	17,500	8,750	-
To	B (W.N.3)	-	-	8,750	By	Memorandum Revaluation A/c	10,000	5,000	
To	Balance c/d (W.N.2)	11,70,000	5,85,000	5,85,000	By	Cash (Bal. Fig.)			8,40,000
		16,27,500	8,13,750	8,40,000			16,27,500	8,13,750	8,40,000

Balance Sheet as on 31.12.2006

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Plant & Machinery	12,00,000
A	11,70,000	Building	9,00,000
B	5,85,000	Sundry Debtors	3,00,000
C	5,85,000	Stock	4,00,000

Reserve Fund	9,00,000	Cash (1,00,000 + 8,40,000)	9,40,000
Sundry Creditors	4,00,000		
Bills Payable	1,00,000		
	37,40,000		37,40,000

Working Notes:

1. Calculation of new ratio

   C will get ¼ th share in the new profit sharing ratio.

   Therefore, remaining share will be 1-1/4 =3/4

   Share of A will be 3/4 x 2/3 = 2/4 i.e. 1/2

   Share of B will be 3/4 x 1/3 = 1/4

   New ratio will be

   => A : B : C

   => ½ : ¼ : ¼

   => 2 : 1: 1

2. Calculation of closing capital

   Closing capital of A & B after all adjustments is

   A = Rs.11,70,000

   B = Rs. 5,85,000

   Taking B's capital as base (since B's capital is less than A's capital)

   C's closing capital should be Rs.5,85,000 at par with B

3. Adjustment entry for goodwill

Partners	Goodwill as per old ratio	Goodwill as per new ratio	Effect	
A	70,000	52,500	+ 17,500	-
B	35,000	26,250	+ 8,750	-
C	-	26,250	-	-26,250
	1,05,000	1,05,000	26,250	26,250

Adjustment entry will be:

C	Dr.	26,250	
To A			17,500
To B			8,750

8. In the books of Mr. Black

Trading Account for the year ended 31.3.2007

		Rs.			Rs.
To	Opening Stock	1,35,000	By	Sales	9,00,000
To	Purchases	6,45,000	By	Closing Stock at cost $\left(1{,}62{,}000 \times \frac{100}{90}\right)$	1,80,000
To	Gross Profit	3,00,000			
		10,80,000			10,80,000

Memorandum Trading A/c
for the period from 1.4.2007 to 02.06.2007

To Opening Stock at cost		1,80,000	By Sales	4,80,000		
To Purchases	2,25,000		Less: Goods not dispatched	75,000	4,05,000
Add: Goods received but invoice not received	30,000		By Closing stock (Balancing figure)		1,50,000
	2,55,000				
Less: Machinery	15,000	2,40,000			
To Gross Profit (Refer working note)		1,35,000			
		5,55,000			5,55,000

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

$$= 1,50,000^* \times \left(\frac{1,20,000}{1,50,000}\right) = \text{Rs.}1,20,000$$

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

Working Note:

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

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

9. Statement showing provisions on various performing and non-performing assets

Asset Classification	Amount Rs. in Lakhs	Provision %	Amount of Provision Rs. in lakhs
Standard	6,000	0.40	24
Sub-standard	4,400	10	440
Doubtful			
One year	1,800	20	360
2 years	1,200	30	360
3 years	800	30	240
More than 3 years	600	100	600
Loss assets	1,600	100	1,600
			3,624

Note: Sub standard and doubtful assets have been treated as fully secured

10. (i) Statement showing amount to be written off to Revenue Account

			Rs.
Cost of old plant			26,00,000
Add:	Increase in cost of material	$26,00,000 \times \frac{7}{10} \times \frac{25}{100}$	4,55,000

	Increase in cost of Labour 26,00,000 x $\frac{3}{10} \times \frac{30}{100}$		2,34,000
	Current cost of old plant		32,89,000
Less:	Cost of Material used	92,000	
	Cost of Material sold	1,68,000	(-) 2,60,000
Amount to be written off to Revenue A/c			30,29,000

(ii) Statement showing amount to be capitalised

Cost of new plant excluding the value of old materials used	66,00,000
Less: Current cost of old plant	32,89,000
Current cost to be capitalized	33,11,000
Add: Value of old material used	92,000
Total amount to be capitalized	34,03,000

(iii) Journal Entries in the Books of X Electricity Company Ltd.

			Rs.	Rs.
(a)	Replacement Account	Dr.	32,89,000	
	To Bank Account			32,89,000
	(Being the replacement of old plant by a new plant; the current cost of replacement Rs.32,89,000)			
(b)	Plant Account	Dr.	34,03,000	
	To Replacement Account			92,000
	To Bank Account			33,11,000
	(Being additional cost of new plant capitalized and also old materials used in construction of new plant)			
(c)	Bank Account	Dr.	1,68,000	
	To Replacement A/c			1,68,000
	(Being the sale of old materials for Rs.1,68,000)			
(d)	Revenue A/c	Dr.	30,29,000	
	To Replacement Account			30,29,000
	(Being the balance of replacement account transferred to revenue account)			

(iv) Replacement Account

Dr.					Cr.
		Rs.			Rs.
To	Bank A/c	32,89,000	By	New Plant A/c	92,000
			By	Bank A/c	1,68,000
			By	Revenue A/c (Balancing figure)	30,29,000
		32,89,000			32,89,000

11. Statement showing calculation of Average Due Date

Due date (Normal)	Due date (Actual)	No. of days from the starting date i.e., 25.06.06		Amount (Rs.)	Product
25.06.2006	25.06.2006		0	2,500	0
15.08.2006 (Independence day)	14.08.2006	5+31+14=	50	3,500	1,75,000
08.09.2006	08.09.2006	5+31+31+8=	75	5,000	3,75,000
29.10.2006 (Sunday)	28.10.2006	5+31+31+30+28 =	125	4,000	5,00,000
				15,000	10,50,000

Average due date = $\text{Base Date} \pm \frac{\text{Total of Product}}{\text{Total of Amount}}$

$= 25 \text{ June } 2006 + \frac{\text{Rs.}10{,}50{,}000}{\text{Rs.}15{,}000}$

= 25 June 2006 + 70 days

= (5+31+31+3) = 03 September, 2006

If the payment is made on 31st July, rebate will be allowed for unexpired time from 31.7.2006 to 03.09.2006 i.e., 34 days (31+3). Mr. SK has to pay the discounted value of the total amount.

Discount = Rs.15,000 x 9/100 x 34/365 = Rs.125.75

Amount to be paid on 31.07.2006 = Rs.15,000 – 125.75 = Rs.14,874.25

12. Trading A/c of Mr. Parth

for the year ended 31.3.2007

		Rs.				Rs.
To	Opening Stock	50,000	By	Sales		
To	Purchases (Balance figure)	5,30,000		Cash Sales	1,70,000	
To	Gross Profit (W.N.2)	1,70,000		Credit Sales (W.N.1)	5,10,000	6,80,000
			By	Closing Stock		70,000
		7,50,000				7,50,000

Profit & Loss Account of Mr. Parth

for the year ended 31st March, 2007

Dr.			Rs.			Cr. Rs.
To	Business Expenses	82,000		By	Gross Profit	1,70,000
	Add: Outstanding	5,000	87,000			
To	Loss on sale of furniture (W.N.4)		3,000			
To	Depreciation on: Machinery (W.N.6)	26,250				
	Furniture (W.N.5)	2,400	28,650			
To	Net Profit transferred to Capital A/c		51,350			
			1,70,000			1,70,000

Balance Sheet of Mr. Parth
as on 31st March, 2007

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital A/c:			Machineries	1,50,000	
As on 1.4.2006 (W.N. 9)	2,47,200		Additions	50,000	
Add: Net Profit:	51,350			2,00,000	
	2,98,550		Less: Depreciation	26,250	1,73,750
Less: Drawings	30,000	2,68,550	Furniture	30,000	
Sundry Creditors		86,000	Less: Sold	6,000	
Outstanding Business Expenses		5,000		24,000	
			Less: Depreciation 10%	2,400	21,600
			Stock-in-trade		70,000
			Sundry Debtors (W.N.7)		76,000
			Cash in hand		2,600
			Cash at Bank		15,600
		3,59,550			3,59,550

Working Notes:

		Rs.
1.	Cash Sales (25% of Total Sales)	1,70,000
	Total Sales = 1,70,000 x $\frac{100}{25}$ =	6,80,000
	Credit Sales = 6,80,000 – 1,70,000 =	5,10,000
2.	G.P. 25% on 6,80,000	1,70,000
3.	Purchases	5,30,000
	Less: Cash Purchases	1,30,000
	Credit Purchases	4,00,000
4.	Furniture on 31.3.2006	30,000
	Furniture on 31.3.2007	27,000
	Sales Proceeds	3,000
	Less : Book Value	(6,000)
	Loss on Sale of Furniture	(3,000)
5.	Depreciation on Furniture	
	Furniture on 31.3.2006	30,000
	Less: Book Value of Furniture sold	6,000
		24,000
	Depreciation 10% on 24,000	2,400

6. Depreciation on Machinery:

On 1,50,000 x 15% =	22,500
On 50,000x $\frac{15}{100} \times \frac{6}{12} =$	3,750
	26,250

7. Sundry Debtors A/c

Dr.		Rs.			Cr. Rs.
1.4.2006	To Balance b/d	93,000	31.3.2007	By Cash	5,27,000
31.3.2007	To Sales (Credit)	5,10,000		By Balance c/d (Bal.fig.)	76,000
		6,03,000			6,03,000

8. Sundry Creditors A/c

Dr.			Rs.				Cr. Rs.
31.3.2007	To	Cash	4,10,000	1.4.2006	By	Balance b/d (Bal. fig.)	96,000
	To	Balance c/d	86,000	31.3.2007	By	Purchases (Credit) (W.N.3)	4,00,000
			4,96,000				4,96,000

9. Balance Sheet as at 31st March, 2006

Liabilities	Rs.	Assets	Rs.
Sundry Creditors (W.N.8)	96,000	Machineries	1,50,000
Capital (Balancing figure)	2,47,200	Sundry Debtors	93,000
		Stock-in-trade	50,000
		Cash in hand	1,500
		Furniture	30,000
		Cash at Bank	18,700
	3,43,200		3,43,200

13. Balance Sheet of Z Ltd. as on 1st April, 2007

(Rs. in crores)

Liabilities	Amount	Assets	Amount
Share Capital		Fixed Assets	
4,80,00,000 Equity shares of Rs.10 each	48.00	Land and Buildings	63.00
34,00,000, 15% Preference Shares of Rs.100 each	34.00	Plant and Machinery	41.00
(all the above shares are allotted as fully paid up for consideration other than cash).		Investments Current Assets, Loans and Advances	16.00
Reserves and Surplus		A. Current Assets	
Security Premium (60 + 36 + 4 + 2.8)	102.80	Stock	37.00
Capital Reserve (W.N.4)	4.70	Sundry Debtors	45.00
Investment Allowance Reserve	9.00	Cash at Bank	29.00

Secured Loans		B. Loans and Advances	
18% of Debentures (Rs.100 each)	7.50	Bills Receivable	9.00
Unsecured Loans		Miscellaneous Expenditure	
Current Liabilities and Provisions Sundry Creditors	26.00	(to the extent not written off or adjusted)	
Bills Payable	17.00	Amalgamation Adjustment Account	9.00
	249.00		249.00

Note: Since Investment Allowance Reserve is to be maintained for 4 years, it is carried forward by a corresponding debit to Amalgamation Adjustment Account in accordance with AS-14.

Working Notes:

1. Calculation of Net assets taken over (Rs. In crores)

Particulars		X Ltd.	Y Ltd.
Assets taken over:			
Land and Buildings		38	25
Plant and Machinery		24	17
Investments		10	6
Stock		22	15
Sundry Debtors		25	20
Bills Receivable		5	4
Cash at Bank		16	13
	(i)	140	100
Liabilities taken over:			
Debentures		3.33	4.17
Sundry Creditors		19.00	7.00
Bills Payable		12.00	5.00
	(ii)	34.33	16.17
Net assets taken over	(i) – (ii)	105.67	83.83

2. Calculation of Debentures to be issued in Z Ltd.

X Ltd.

Existing Debenture interest @ 15% = Rs.400 lakhs x 15/100 = Rs.60 lakhs

Debentures to be issued in Z Ltd. @ 18% to maintain the same amount of interest

= Rs.60 lakhs x 100/18 = Rs.333.33 lakhs or Rs.3.33 crores

Y Ltd.

Existing Debenture interest @15% = Rs.500 lakhs x 15/100 = Rs.75 lakhs

Debentures to be issued in Z Ltd. @ 18% to maintain the same amount of interest

= Rs.75 x 100/18 = Rs.416.67 lakhs or Rs.4.17 crores

3. Computation of Purchase Consideration:

(Rs. In crores)

		X Ltd.	Y Ltd.
1.	Equity Shareholders		
	$\frac{\text{Rs.50 crores}}{\text{Rs.10}} \times \frac{6}{10} \times \text{Rs.30}$	90	
	$\frac{\text{Rs.45 crores}}{\text{Rs.10}} \times \frac{2}{5} \times \text{Rs.30}$		54
2.	Preference Shareholders		
	$\frac{\text{Rs.20 crores}}{\text{Rs.100}} \times \text{Rs.120}$	24	
	$\frac{\text{Rs.14 crores}}{\text{Rs.100}} \times \text{Rs.120}$		16.8
	Total Purchase consideration	114	70.8

4. Calculation of Goodwill/Capital Reserve

(Rs. in crores)

Particulars	X Ltd.	Y Ltd.
Net Assets takeover	105.67	83.83
Less: Purchase Consideration	114.00	70.80
Goodwill	8.33	----
Capital Reserve	---	13.03

Note: Goodwill arising from amalgamation shall be adjusted against capital reserve arising from amalgamation, and only balance of Rs.4.70 crores is to be shown in the Balance Sheet of Z Ltd as capital reserve.

14. In the books of Self Ltd.

Total Debtors Account

		Rs.			Rs.
To	Balance b/d	78,000	By	Cash	4,25,000
To	Bank (Cheque dishonoured)	7,500	By	Discount Allowed	3,000
To	B/R (Dishonoured)	2,500	By	B/R	20,000
To	Interest	1,200	By	Returns Inward	8,500
To	Sales	4,90,000	By	Bad Debts	1,000
To	Sundry Creditors (endorsed bill dishonoured with noting charges)	5,575	By	Balance c/d	1,27,275
		5,84,775			5,84,775

Total Creditors Account

		Rs.			Rs.
To	Cash	1,62,000	By	Balance b/d	85,000
To	B/R (endorsed)	7,900	By	Purchases	2,80,000
To	Discount received	2,500	By	Sundry Debtors A/c (endorsed B/R dishonoured with noting charges)	5,575

To	Bills Payable	16,000	By	Cash (over payments refunded)	600
To	Returns outward	3,700			
To	Balance c/d	1,79,075			
		3,71,175			3,71,175

Note: Transactions relating to cash sales or purchases, honour of bills receivable or payable, and discount or endorsement of bill will not be entered in Total Debtors and Total Creditors A/c.

15. Corrected Receipts and Payments Account of Trustwell Club

for the year ended 31st March, 2007

Dr. Receipts		Amount Rs.	Payments	Cr. Amount Rs.
To Balance b/d		450	By Expenses (Rs. 6,300 – Rs. 2,700)	3,600
To Subscription			By Sports material	2,700
Annual income	4,590		By Balance c/d (cash in hand and at bank)	90,720
Less: receivable as on 31.3.2007	270			
Add: Advance received for the year 2007-2008	90			
Add: Receivable as on 31.3.2006	180			
Less: Advance received as on 31.3.2006	90	4,500		
To Other fees		1,800		
To Donation for building		90,000		
To Sale of furniture		270		
		97,020		97,020

Income and Expenditure Account of Trustwell club

for the year ended 31st March, 2007

Dr. Expenditure		Amount Rs.	Income	Cr. Amount Rs.
To Sundry expenses		3,600	By Subscription	4,590
To Sports material			By Other fees	1,800
Balance as on 1.4.2006	6,660		By Interest on investment (5% on Rs. 27,000)	1,350
Add: Purchases	2,700			
Less: Balance as on 31.3.2007	1,800	7,560	By Deficit: Excess of expenditure over income	3,600
To Loss on sale of furniture		180		
		11,340		11,340

Balance Sheet of Trustwell club

as on 31st March, 2007

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital fund	36,000		Furniture	1,800	
Less: Excess of expenditure over income	3,600	32,400	Less: Sold	450	1,350
			5% Investment		27,000
			Interest accrued on investment		1,350
Building fund		90,000	Sports material		1,800
Subscription received in advance		90	Subscription receivable		270
			Cash in hand and at bank		90,720
		1,22,490			1,22,490

Balance Sheet of Trustwell Club

as on 1st April, 2006

Liabilities	Amount Rs.	Assets	Amount Rs.
Subscription received in advance	90	Furniture	1,800
Capital Fund (balancing figure)	36,000	Investment	27,000
		Sports material	6,660
		Subscription receivable	180
		Cash in hand and at bank	450
	36,090		36,090

16. In the books of M/s Balraam Ltd. (H.O.)

(a) Branch Stock Account

		Rs.			Rs.
To	Balance b/d	80,000	By	Branch Cash/Debtors (Sales)	12,19,000
To	Goods sent to Branch A/c	12,00,000	By	Loss in transit	15,000
			By	Pilferage	6,000
			By	Balance c/d	40,000
		12,80,000			12,80,000

Opening Stock at Branch at cost to Branch = at Invoice price only.

(b) Goods sent to Branch Account

		Rs.			Rs.
To	Branch Adjustment A/c (Loading 25/125)	2,40,000	By	Branch Stock A/c	12,00,000
To	Trading A/c	9,60,000			
		12,00,000			12,00,000

(c) Branch Adjustment Account

		Rs.			Rs.
To	Loss in transit (loading)	3,000	By	Balance b/d (25/125 of 80,000)	16,000
To	Pilferage (loading)	1,200	By	Goods sent to Branch A/c	2,40,000
To	Branch Profit & Loss A/c (Bal. fig.)	2,43,800			
To	Balance c/d (loading on closing Stock)	8,000			
		2,56,000			2,56,000

(d) Branch Profit & Loss Account

		Rs.			Rs.
To	Expenses	60,000	By	Branch Adjustment A/c (Gross Profit)	2,43,800
To	Loss in transit (W.N.1)	2,000			
To	Pilferage (at Cost) transit (W.N.2)	4,800			
To	General Profit & Loss A/c (Profit transferred)	1,77,000			
		2,43,800			2,43,800

Working Notes:

		Rs.
1.	Loss in transit at Invoice Price	15,000
	Less: Loading adjusted in Branch Adjustment A/c (15,000 x 25/125)	3,000
	Cost of Loss in transit	12,000
	Less : Recovered from insurance company	10,000
	Loss in transit	2,000
2.	Invoice Price of Pilferage	6,000
	Less : Loading Adjusted in Branch A/c	1,200
	Loss due to Pilferage (at cost)	4,800

3. Invoice Price = Cost + 25%

Hence, Loading = 25/125

17. In the books of Lost Ltd.

Liquidator's Final Statement of Account

	Receipts		Rs.		Payment	Rs.
To	Cash at Bank		50,000	By	Liquidator's expenses	4,000
To	Realisation of Assets: Machinery		1,66,000	By	Liquidator's Commission @ 2% on 3,50,000	7,000
	Furniture		8,000			
	Stock	1,10,000		By	Preferential creditors:	

	Less: Secured Bank loan	1,00,000	10,000		Income-tax paid	10,000
	Debtors		2,30,000	By	Unsecured creditors	3,50,000
				By	Preference shareholders: 1,000, 6% preference shares of Rs.100 fully paid	1,00,000
			4,64,000			4,71,000
To	Call money on 1,800 equity shares @ Rs.15 per share (W.N.2)		27,000	By	Final payment to equity shareholders: 2,000 equity shares of Rs.100 each fully paid up @ Rs.10 per share (W.N.2)	20,000
			4,91,000			4,91,000

Working Notes:

		Rs.
1.	Total of receipts side excluding Call Money	4,64,000
	Total of payments side excluding final payment to Equity Shareholders	4,71,000
	Deficit	(-) 7,000
	Notional call on 1800 Equity shares at Rs.25 each	45,000
	Notional surplus	38,000

Notional surplus per equity shares= $\frac{\text{Rs.}38{,}000}{2{,}000+1{,}800\text{ equity shares}}$ = Rs.10

i.e. All equity shareholders are to get a loss of Rs.90 per share (100-10= Rs.90)

2. In case of loss of 90 per share, partly paid equity shareholders are to pay at Rs.15 per share (i.e. Rs.90 loss – Rs.75 already paid)

Call money due on 200 shares was found to be irrecoverable. Hence, Call money from 1,800 equity shares only has been shown on receipts side. Fully paid equity shareholders have been refunded Rs.10 per share i.e., loss for them is of Rs.90 per share.

18. (a) In the liabilities side of the Balance Sheet as follows:

		Rs.
Match fund	10,000	
Add: Income from matches	5,000	
	15,000	
Less: Match expenses	12,000	3,000

(b) When in the Receipt and Payment account, opening and closing balances are given as per pass book then, it means that the information about various receipts and payments given in the receipts and payments account is as per pass book. In that case, firstly, all figures of receipts and payments account should be adjusted alongwith the bank balance to ascertain various receipts and payments as per cash book and then, financial statements should be prepared as usual.

(c) Excess payment of insurance premium can be either on account of outstanding amount in the beginning of the year or advance payment for the next year. Generally, insurance premium is paid in advance, therefore, excess amount is treated as unexpired insurance and recorded on asset side.

(d) Average Due Date is that date on which the net amount payable on multiple transactions can be settled without implication of interest to either party.

(e) Claim after considering average clause Rs.60,000. Claim without average clause Rs.75,000.

(f) $\text{Rs.}2{,}000 \times 6.5\,\text{months} \times \frac{12}{100}$ = Rs.1,560

(g) Share acquired by C, from A and B = $\frac{2}{5} \times \frac{1}{2} = \frac{1}{5}$ each

New share of A and B will be:

A = $\frac{3}{5} - \frac{1}{5} = \frac{2}{5}$

B = $\frac{2}{5} - \frac{1}{5} = \frac{1}{5}$

New profit sharing ratio of A: B: C

$$\frac{2}{5} : \frac{1}{5} : \frac{2}{5} \text{ or } 2 : 1 : 2$$

(h) Rs.30,000 distributed in the ratio of 5:3:2 as follows:

A = 15,000; B = Rs.9,000 and C = Rs.6,000.

But C's share shall not be less than Rs.10,000. Therefore Rs.4,000 (Rs.10,000 – Rs.6,000) is to be shared by A and B in the ratio of 3:2 i.e Rs.2,400 and Rs.1,600 respectively.

Actual distribution of profit will be

A = Rs.12,600 (15,000- 2,400);

B = Rs.7,400 (9,000 – 1,600); and

C = Rs.10,000.

(i) Average profit = $\frac{8{,}000 + 10{,}000 + 12{,}000 + 16{,}000}{4} = \text{Rs.}11{,}500$

Normal profit = Rs.50,000 x 15% = Rs.7,500

Super profit = Rs.11,500 – Rs.7,500 = Rs.4,000

Goodwill = Rs.4,000 x 3 years = Rs.12,000

19. (a) In order to discourage under-insurance, fire insurance policies often include an average clause. The effect of these clause is that if the insured value of the subject matter concerned is less than the total cost then the average clause will apply, that is, the loss will be limited to that proportion of the loss as the insured value bears to the total cost.

The actual claim amount would therefore be determined by the following formula:

$$\text{Claim} = \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

For example, if stock worth Rs. 4 lakhs is insured for Rs. 3 lakhs only and the loss incurred due to fire amounts to Rs. 1,80,000, the claim admitted by the insurer will be Rs. 1,80,000 x 3,00,000/4,00,000 =Rs. 1,35,000.

The average clause applies only when the insured value is less than the total value of the insured subject matter.

(b) Both sacrificing ratio and gaining ratio are related to sharing of profits at the time of reconstitution of the firm. Sacrificing ratio is generally calculated at the time of admission of a partner. It measures the ratio of share of profit sacrificed by existing partners in favour of the new partner being admitted. On the other hand, gaining ratio generally measures the ratio of share of profit purchased by the continuing partners from an outgoing partner. Thus, it is calculated at the time of death or retirement of a partner. Sometimes, at the time of retirement besides the outgoing partner, a continuing partner also sacrifices certain proportion of his share. Moreover, calculation of sacrifices and gains is also necessary at the time of change in the profit sharing ratio of the partners. Thus, the points of distinction between sacrificing ratio and gaining ratio are as follows:

- Sacrificing ratio is generally calculated at the time of admission of a partner, whereas, gaining ratio is generally calculated at the time of retirement (or death) of a partner.
- Sacrificing ratio is a measure of the share of profit sacrificed by the partner(s), whereas, gaining ratio is a measure of the share of profit purchased by a partner(s).
- Partner(s) sacrificing the whole or a part of his share of profits, receives compensation from the partner who gains, whereas, the partner(s) benefiting from the change in the ratio pays compensation for the increase in his share of profit.

(c) Sometimes, the effect due to change in ratio is to be accounted for without changing the book value of the assets, liabilities, reserves, profits, losses etc. In that case, revaluation profit is computed on memorandum basis. The account prepared is known as Memorandum Revaluation account.

In this process no change in book value of assets is reflected on balance sheet but effect of revaluation of assets and liabilities is made directly in capital accounts of partners.

By revaluing assets and liabilities on reconstitution of the firm, the net benefit of increase or decrease in the value of assets and liabilities due to efforts of existing partners is shared by them only.

(d) A customised accounting software is one where the software is developed on the basis of requirement specifications provided by the organisation. The choice of customised accounting software could be because of the typical nature of the business or else the functionality desired to be computerised is not available in any of the pre-packaged accounting software. An organisation desiring to have an integrated software package covering most of the functional area may have the financial module as part of the entire customised system.

A feasibility study is first made before the decision to develop a software is made. The life cycle of a customised accounting software begins with the organisation providing the user requirements. Based on these user requirement the system analyst prepares a requirement specification which is given for approval by the user management. Once the requirement specification is approved, the designing process begins. Development, testing and implementation are the other components of the system development life cycle.

The choice of customised accounting packages is made on the basis of the vendor proposals. The proposals are evaluated as to the suitability, completeness, cost and vendor profiles. Generally preference is given to a vendor who has a very good track record of deliverables.

(e) By preparing self balancing ledgers, an accountant gets following main advantages:

1. It is easy to locate the errors under self-balancing system. Delay in balancing is minimized thereby saving time, money and labour.
2. It is easy to compile trial balance before individual personal ledger balances are absorbed. It also facilitates the preparation of both interim accounts and draft final accounts.

3. It enables accounting system that would otherwise be unwidely, to be divided into self contained sections.

4. The control accounts provide a quick means of ascertaining the upto-date amounts owing to and by the business. This information can be very useful to the management.

5. It acts as a check on the honesty of clerks in charge of personal ledgers.

6. The information regarding proprietor's capital, profit and loss etc. contained in the general ledger can be kept confidential from the office staff, if general ledger is kept in the charge of the Partner or a trustworthy assistant.

Thus this system can be used with profit in those cases where either a large number of customers and suppliers require alphabetical or regional classification or when it is desired to prepare final accounts periodically.

(f) By setting the accounting standards the accountant has following benefits:

(i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards adopted in different countries.

However, there are some limitations of setting of accounting standards:

(i) Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.

(ii) There may be a trend towards rigidity and away from flexibility in applying the accounting standards.

(iii) Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

(g) The SEBI (Disclosure and Investor Protection) Guidelines, 2000 which came into force w.e.f. 27th day of January, 2000 require that the company while issuing bonus shares shall ensure the following :

(a) No company shall, pending conversion of FCDs/PCDs/ issue any by way of bonus unless similar benefit is extended to the holders of such FCDs/ through reservation of shares in proportion to such convertible part of FCDs or PCDs.

(b) The shares so reserved may be issued at the time of conversion(s) of debentures on the same terms on which the bonus issues were made.

- The bonus issue shall be made out of free reserves built of the profits or share premium collected in cash only.
- Reserves created by revaluation of fixed assets are not capitalised.
- The declaration of bonus issue, in lieu of dividend, is not made.
- The bonus issue is not made unless the partly-paid shares, if any, are made fully paid-up.

The company—

(a) has not defaulted in payment of interest or principal in respect of fixed deposits and interest on existing debentures or principal on redemption; and

(b) has sufficient reason to believe that it has not defaulted in respect of payment of statutory dues of the employees such as contribution to provident fund, gratuity, bonus etc.

A company which announces its bonus issue after the approval of the Board of directors must implement the proposal within a period of six months from the date of such approval and shall not have the option of changing the decision.

(i) The articles of association of the company shall contain a provision for capitalisation of reserves; etc.

(ii) If there is no such provision in the articles the company shall pass a resolution at its general body meeting making provisions in the articles of association for capitalisation.

Consequent to the issue of bonus shares, if the subscribed and paid up capital exceed the authorised share capital a resolution shall be passed by the company at its general body meeting for increasing the authorised capital.

20. (a) Effect of Uncertainties on Revenue Recognition

Para 9 of AS 9 on "Revenue Recognition" deals with the effect of uncertainties on Revenue Recognition. The para states:

1. Recognition of revenue requires that revenue is measurable and at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection.

2. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc. revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise, revenue only when it is reasonably certain that the ultimate collection will be made. When there is uncertainty as to ultimate collection, revenue is recognised at the, time of sale or rendering of service even, though payments are made by instalments.

3. When the uncertainty relating to collectability arises subsequent to the time of sale or rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.

4. An essential criterion for the recognition of revenue is that the consideration receivable for the sale of goods, the rendering of services or from the use by others of enterprise resources is reasonably determinable. When such consideration is not determinable within reasonable limits; the recognition of revenue is postponed.

5. When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is properly recognised.

(b) Refund of Government Grants (AS-12)

A Government grant that becomes refundable is treated as an extraordinary item.

The amount refundable in respect of a Government grant related to revenue is first applied against any amortised deferred credit remaining in respect of the grant.

The amount refundable in respect of a Government Grant related to a specific fixed amount is recorded by increasing the book value of the asset or by reducing the capital revenue or the deferred income balance, as appropriate, by the amount refundable. Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the Government on Non-fulfilment of specific condition, the relevant amount recoverable by the government is reduced from the capital reserve.

(c) The disclosure requirements as per AS-13 of investment of different classification are:

(i) Accounting policies followed for valuation of Investment.

(ii) Classification of investment into current and long term in addition to classification as per Schedule VI of Companies Act in case of company.

(iii) Aggregate amount of quoted and unquoted securities should be shown separately.

(iv) Any significant restrictions on investments like minimum holding period for sale/disposal, utilisation of sale proceeds or non-remittance of sale proceeds of investment held outside India should be disclosed.

(d) Following are the criteria for classifying an enterprise as Level -I enterprise:

(i) Enterprises, whose equity or debt securities are listed or is in the process of being listed in India.

(ii) Banks (including co-operative banks), Insurance companies and Financial Institutions.

(iii) All commercial, industrial and other business reporting enterprises whose turnover during the previous year is in excess of Rs.50 crores. Here turnover does not include 'other income'.

(iv) All commercial, industrial and other business reporting enterprises whose total borrowings including public deposits during the accounting year exceeds Rs.10 crores.

(v) Holding and subsidiary companies of any of the above enterprises at any time during the accounting year.

(e) Para 15 of Accounting Standard 10 on "Accounting for Fixed Assets" states the following provisions regarding valuation of fixed assets in special cases :

1. In the case of fixed assets acquired on hire purchase terms, although legal ownership does not vest in the enterprise, such assets are recorded at their cash value, which if not readily available, is calculated by assuming an appropriate rate of interest. They are shown in the balance sheet with an appropriate narration to indicate that the enterprise does not have full ownership thereof.

2. Where an enterprise owns fixed assets jointly with others (otherwise than as a partner in a firm), the extent of its share in such assets, and the proportion in the original cost, accumulated depreciaiton and written down value are stated in the balance sheet. Alternatively, the pro rata cost of such jointly owned assets is grouped together with similar fully owned assets. Details of such jointly owned assets are indicated separately in the fixed assets register.

3. Where several assets are purchased for a consolidated price, the consideration is apportioned to the various assets on a fair basis as determined by competent valuers.

(f) Accounting Standard 19 has divided the lease into two types viz. (i) Finance Lease and (ii) Operating Lease.

Finance Lease : A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. Title may or may not eventually be transferred. At the inception of a finance lease, the lessee should recognise the lease as an asset and a liability. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of the lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of the minimum lease payments from the standpoint of the lessee.

Operating Lease : A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership. Lease payments under an operating lease should be recognised as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

(g) Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

(h) The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 on Accounting for Amalgamation.

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:

(a) names and general nature of business of the amalgamating companies;

(b) the effective date of amalgamation for accounting purpose;

(c) the method of accounting used to reflect the amalgamation; and

(d) particulars of the scheme sanctioned under a statute.

For amalgamations accounted under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the amalgamation:

(a) description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and

(b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations, accounted under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation;

(a) consideration for the amalgamation and a description of the consideration paid or contingently payable; and

(b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

(i) Paragraphs 10 and 11 of Appendix A to the Accounting Standard 26 on Intangible Assets, lays down the following procedure for accounting of software acquired for internal use:-

♦ The cost of a software acquired for internal use should be recognised as an asset if it meets the recognition criteria prescribed in paragraphs 20 and 21 of this statement.

♦ The cost of a software purchased for internal use comprises its purchase price, including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities) and any directly attributable expenditure on making the software ready for its use.

Any trade discounts and rebates are deducted in arriving at the cost. In the determination of cost, matters stated in paragraphs 24 to 34 of the Statement which deal with the method of accounting for 'Separate Acquisitions', 'Acquisitions as a part of Amalgamations', Acquisitions by way of Government Grant', and 'Exchanges of Assets', need to be considered, as appropriate.

Recognition criteria as per paragraphs 20 and 21 of the standard are stated below:-

- An intangible asset should be recognised if, and only if:
  (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and
  (b) the cost of the asset can be measured reliably.
- An enterprise should assess the probability of future economic benefits using reasonable and supportable assumptions that represent best estimate of the set of economic conditions that will exist over the useful life of the asset.

21. (a) (i) Present value of residual value = Rs. 40,000 × 0.7513 = Rs. 30,052

Present value of lease payments = Rs. 3,00,000 – Rs. 30,052 = Rs. 2,69,948.

The present value of lease payments being 89.98% $\left(\frac{2,69,948}{3,00,000}\times 100\right)$ of the fair value, i.e. being a substantial portion thereof, the lease constitutes a finance lease.

(ii) Calculation of unearned finance income

	Rs.
Gross investment in the lease [(Rs.1,08,552* × 3) + Rs. 40,000]	3,65,656
Less: Cost of the equipment	3,00,000
Unearned finance income	65,656

Note: - In the above solution, annual lease payment has been determined on the basis that the present value of lease payments plus residual value is equal to the fair value (cost) of the asset.

(b) 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.

(c)

		Rs.
Original Cost		50,00,000
Less:	Govt. grant received	(10,00,000)
		40,00,000
Less:	Amount to be written off in the first year $\frac{40,00,000-5,00,000}{5\text{ years}}$	(7,00,000)
		33,00,000
Add:	Refund of Govt. grant	10,00,000
At the end of the second year value of fixed assets after refund of grant but before depreciation.		43,00,000

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* Annual lease payments = $\frac{\text{Rs. }2,69,948}{2.4868} = \text{Rs.}1,08,552$ (approx.)

(d) The decision of making provision for non-moving stocks on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving stocks should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

In the given case, considering the total value of stock, the change in the amount of required provision of non-moving stock from Rs.3.5 lakhs to Rs.2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2006-07:

"The company has provided for non-moving stocks on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been higher by Rs.1 lakh."

(e) AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building upto the date of completion (January, 2007) i.e. Rs. 18 lakhs alone can be capitalized. It cannot be extended to Rs. 25 lakhs.

(f) This treatment is a change in Accounting policy and such fact to be disclosed as per AS-2. Any change in amount mentioned in financial statement which is affected such a change to be disclosed as per AS-1, AS-2 and AS-5.

A note to be given in the annual accounts that had the company followed earlier system of valuation of closing stock the profit before tax would have been higher by Rs.5 lakhs. This is as per Para 29 of AS-5.

(g) As per AS 9 vide para 10, the additional revenue on account of Board's decision of X Ltd. of Rs.5 lakhs to be recognised as income for 2006-07 financial year, if the company is able to assess the ultimate collection with reasonable certainty.

(h) Cash Flow Statement

Cash flows from operating activities:		(Rs. in lacs)
Net Profit		60,000
Less: Exchange gain		(8,000)
		52,000
Less: Profit on sale of investments		(12,000)
		40,000
Add: Depreciation on Assets		11,000
Change in current assets and current liabilities		51,000
(-) Increase in Debtors	(8,000)	
(+) Decrease in Stock	12,000	
(-) Decrease in creditors	(6,000)	(2,000)
Net cash from Operating activities (A)		49,000
Cash flows from Investing activities:		
Sale of Investments	70,000	
Less: Purchase of Fixed Assets	(65,000)	
Net cash from Investing activities (B)		5,000
Cash flows from Financing activities:		
Issue of preference shares	9,000	

Add: Loan raised	4,500	
	13,500	
Less: Redemption of Debentures	(5,700)	
	7,800	
Less: Interest paid	(945)	
	6,855	
Less: Dividend paid	(1,400)	
Net cash from Financing activities (C)		5,455
Net increase in Cash & Cash Equivalents		59,455
Add: Opening cash and cash equivalents		12,341
Closing cash and cash equivalents		71,796

(i) Fixed Assets Account

Dr. Cr.

			Rs.				Rs.
1.4.2002	To	Bank	90,00,000	31.3.2003	By	Depreciation	9,00,000
					By	Balance c/d	81,00,000
			90,00,000				90,00,000
1.4.2003	To	Balance b/d	81,00,000	31.3.2004	By	Depreciation	9,00,000
					By	Balance c/d	72,00,000
			81,00,000				81,00,000
1.4.2004	To	Balance b/d	72,00,000	1.4.2004	By	Revaluation Reserve (W.N.1)	3,60,000
	To	Revaluation Reserve (W.N.1)	5,40,000	31.3.2005	By	Depreciation (W.N.3)	9,22,500
					By	Balance c/d	64,57,500
			77,40,000				77,40,000
1.4.2005	To	Balance b/d	64,57,500	31.3.2006	By	Depreciation	9,22,500
					By	Balance c/d	55,35,000
			64,57,500				64,57,500
1.4.2006	To	Balance b/d	55,35,000	1.4.2006	By	Bank	54,80,000
					By	Revaluation Reserve (loss)	55,000
			55,35,000				55,35,000

Depreciation Account

			Rs.				Rs.
31.3.2003	To	Fixed assets	9,00,000	31.3.2003	By	P/L Account	9,00,000
31.3.2004	To	Fixed assets	9,00,000	31.3.2004	By	P/L Account	9,00,000
31.3.2005	To	Fixed assets	9,22,500	31.3.2005	By	P/L Account	9,00,000
					By	Revaluation Reserve Account (W.N.4)	22,500
			9,22,500				9,22,500

31.3.2006	To	Fixed assets	9,22,500	31.3.2006	By	P/L Account	9,00,000
					By	Revaluation Reserve Account	22,500
			9,22,500				9,22,500

Revaluation Reserve Account

Dr.			Rs.				Cr. Rs.
1.4.2004	To	Fixed assets (Loss on revaluation)	3,60,000	1.4.2004	By	Fixed Assets (upward revaluation)	5,40,000
31.3.2005	To	Depreciation (W.N.4)	22,500				
	To	Balance c/d	1,57,500				
			5,40,000				5,40,000
31.3.2006	To	Depreciation	22,500	1.4.2005	By	Balance b/d	1,57,500
	To	Balance c/d	1,35,000				
			1,57,500				1,57,500
1.4.2006	To	Fixed assets (Loss on sale of revalued assets)	55,000	1.4.2006	By	Balance b/d	1,35,000
	To	General Reserve	80,000				
			1,35,000				1,35,000

Workings Notes:

1. Calculation of Revaluation amount to be charged/credited to P/L account / Revaluation reserve account:

   Downward revision charged to P/L account=(Rs.72,00,000 x ½) x 10% =Rs.3,60,000

   Upward revision credited to Revaluation reserve account = (Rs.72,00,000 x ½) x 15% = Rs.5,40,000

2. Value of Fixed assets after revaluation as on 1.4.04:

   [(72,00,000 x ½) – 3,60,000] + {(72,00,000 x ½) + 5,40,000} = Rs.32,40,000 + 41,40,000 = Rs.73,80,000

3. Depreciation in each year for remaining 8 years

   Value of Fixed Assets Rs.73,80,000 (W.N.2)

   Remaining life of the asset = 8 years

   New Depreciation = Rs.73,80,000/8 = Rs.9,22,500

4. Depreciation to be charged to Revaluation Reserve

   = Rs.9,22,500 – Rs.9,00,000 = Rs.22,500

Students are hereby informed that Accounting Standards 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 16, 19, 20 26, 29 are applicable for November 2007 examination at PCC level.