Roll No..............................

Total No. of Questions—6] [Total No. of Printed Pages—7

Time Allowed—3 Hours Maximum Marks—100

BKD

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Wherever appropriate, suitable assumptions should be made by the candidate.

Working notes should form part of the answer.

Marks

1. Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs. 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at a profit of 25% on sales. 16

Following information is given to you :

Assets and Liabilities	As on 1.4.2007	As on 31.3.2008
Cash in hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in trade	2,80,000	?

Analysis of his bank pass-book reveals the following information :

(a) Payment to creditors Rs. 7,00,000

(b) Payment for business expenses Rs. 1,20,000

(c) Receipts from debtors Rs. 7,50,000

(d) Loan from Laxman Rs. 1,00,000 taken on 1.10.2007 at 10% per annum.

(e) Cash deposited in the bank Rs. 1,00,000.

He informs you that he paid creditors for goods Rs. 20,000 in cash and salaries Rs. 40,000 in cash. He has drawn Rs. 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

Prepare :

(i) Trading and Profit and Loss Account for the year ended 31.3.2008.

(ii) Balance Sheet as at 31st March, 2008.

Working notes should form part of your answer.

Solution to Question No. 1

Sundry Debtors			
To Balance b/d	1,00,000	By Bank	7,50,000
To Sales [Balancing Figure]	10,00,000	By Balance c/d	3,50,000
	11,00,000		**11,00,000**

Sundry Creditors			
To Bank	7,00,000	By balance b/d	40,000
To Cash	20,000	By Purchases [Balancing Figure]	7,70,000
To Balance c/d	90,000		
	8,10,000		**8,10,000**

Working Note 1:

Mark up = 25% on sales i.e., ¼ on sales = 1/3 on cost.

Cash Book					
	Cash	**Bank**		**Cash**	**Bank**
To Balance b/d	10,000	-	By Balance b/d	-	50,000
To Debtors	-	7,50,000	By Creditors	-	7,00,000
To Loan (Laxman)	-	1,00,000	By Expenses	-	1,20,000
To Cash [contra]	-	1,00,000	By Bank [contra]	1,00,000	
To Sales	2,40,000	-	By Creditors	20,000	
			By Salaries	40,000	
			By Drawings	80,000	
			By Balance c/d	10,000	80,000
	2,50,000	**9,50,000**		**2,50,000**	**9,50,000**

Working Note: 2

Opening Stock	2,80,000
Purchases	7,70,000
	10,50,000
Sales➔	
Cash	2,40,000
Credit	10,00,000
Total Sales	**12,40,000**
Profit (1/4)	3,10,000
Cost of Goods Sold (Sales – Profit)	9,30,000

Closing Stock [10,50,000 – 9,30,000]	**1,20,000**

Trading and Profit and Loss Account			
To Opening Stock	2,80,000	By Sales	
To Purchases	7,70,000	→ Cash	2,40,000
To Gross Profit	**3,10,000**	→ Credit	10,00,000
		By Closing Stock	1,20,000
	13,60,000		**13,60,000**
To Business expenses	1,20,000	By Gross Profit	**3,10,000**
To Salaries	40,000		
To Interest on Loan (1,00,000 x 10% x 6/12)	5,000		
To Net Profit	**1,45,000**		
	3,10,000		**3,10,000**

Opening Statement of Affairs (1-4-2007)			
Liabilities		**Assets**	
Sundry Creditors	40,000	Cash in Hand	10,000
Bank O/D	50,000	Sundry Debtors	1,00,000
Capital [Balancing Figure]	**3,00,000**	Stock	2,80,000
	3,90,000		**3,90,000**

Balance Sheet as at 31-3-2008)				
Liabilities			**Assets**	
Creditors		90,000	Cash in Hand	10,000
Loans		1,00,000	Cash at Bank	80,000
Interest on O/S		5,000	Sundry Debtors	3,50,000
Capital	3,00,000		Closing Stock	1,20,000
(+) Net Profit	1,45,000			
(-) Drawings	(80,000)	3,65,000		
		5,60,000		**5,60,000**

2. (a) Following information is furnished to you by Sound Bank Ltd. for the year ended 31st March, 2008 : 8

	(Rs. in thousands)
Interest and discount—(Income)	8,860
Interest on public deposits—(Expenditure)	2,720
Operating expenses	2,662
Other incomes	250
Provisions and contingencies (It includes provision in respect of Non-performing Assets (NPAs) and tax provisions)	2,004
Rebate on bills discounted to be provided for as on 31.3.2008	30
Classification of Advances :	
Standard Assets	5,000
Sub-standard Assets	1,120
Doubtful Assets—fully unsecured	200
Doubtful Assets—fully secured	
Less than 1 year	50
More than 1 year but less than 3 years	300
More than 3 years	300
Loss assets	200

You are required to prepare :

(i) Profit and Loss Account of the Bank for the year ended 31st March, 2008.

(ii) Provision in respect of advances.

(b) Heaven Life Insurance Co., furnishes you the following information : 8

	Rs.
Life Insurance fund on 31.3.2008	52,00,000
Net liability on 31.3.2008 as per actuarial valuation	40,00,000
Interim bonus paid to policyholders during intervaluation period	3,00,000

You are required to prepare :

(i) Valuation Balance Sheet;

(ii) Statement of Net profit for the valuation period; and

(iii) Amount due to the policyholders.

Solution to Question 2 (a)

(i)	**Profit and Loss A/c**			
	Income			
	Interest & DDC	8,860		
	Less: Rebate	30	8,830	
	Other Income		250	9,080

	Expenses			
	Interest on Pub. Deb.		2,720	
	Opg. Exp		2,662	
	Provision & Contingencies			
	Provisions	832		
	Contingencies [B/F]	1,172	2,004	7,386
	Profit			**1,694**

		Rs.	%	Provision
(ii)	Standard Assets	5,000	0.4%	20
	Substandard	1,120	10	112
	Doubtful fully unsecured	200	100	200
	Less than 1 year	50	20	10
	Less than 1 to 3 years	300	30	90
	More than 3 years	300	100	300
	Loss Assets	200	50%	300
				832

Solution to Question 2 (b)

Heaven Life Insurance Co., Ltd.

(i) Valuation Balance Sheet

To Net Liabilities	4,00,000	By Balance b/d	52,00,000
To Surplus	12,00,000		
	52,00,000		**52,00,000**

(ii) Net profit for the valuation period

Surplus	12,00,000
Add: Interim Bonus	3,00,000
	15,00,000

(iii) Amount due to Policy Holders

Amount due to policy holder (95%)	14,25,000
Amount due to shareholders (5%)	75,000

3. (a) On 1st April, 2007, in MK Ltd.'s ledger 9% debentures appeared with a opening balance of Rs. 50,00,000 divided into 50,000 fully paid debentures of Rs. 100 each issued at par. 8

Interest on debentures was paid half-yearly on 30th of September and 31st March every year.

On 31.5.2007, the company purchased 8,000 debentures of its own @ Rs. 98 (ex-interest) per debenture.

On 31.12.2007 it cancelled 5,000 debentures out of 8,000 debentures acquired on 31.5.2007.

On 31.1.2008 it resold 2,000 of its own debentures in the market @ Rs. 101 (ex-interest) per debenture.

You are required to prepare :

(i) Own Debentures account;

(ii) Interest on Debentures account; and

(iii) Interest on own Debentures account.

(b) Easy buy Corporation sells goods on hire-purchase basis. The hire-purchase price is cost plus 60%. 8

It furnishes you the following information :

	Rs.
Hire-purchase stock on 1.4.2007	2,40,000
Instalments due on 1.4.2007	45,000
Goods sold on hire-purchase from 1.4.2007 to 31.3.2008	9,60,000
Cash collected from HP debtors during 1.4.2007 to 31.3.2008	3,00,000
Stock with customers at hire-purchase price on 31.3.2008	6,40,000

You are required to prepare Hire Purchase Trading Account for the year ended 31st March, 2008.

Solution to Question No. 3 (a)

Diary of Events:

31.5	**Purchase of Own Debenture**
30.9	**Payment of Debenture Interest**
30.9	**Interest on Own Debenture Booked**
31.12.	**Interest on Own Debenture Booked**
31.12.	**Cancellation of Own Debenture**
31.1	**Sale of Own Debenture**
31.3.	**Payment of Debenture Interest**
31.3	**Interest on Own Debenture Booked**

30-5-2007	Own Debenture a/c Dr.	7,84,000	
	Debenture Interest a/c Dr. (8,000 X 100 X 9% X 2/12)	12,000	
	To Bank a/c		7,9,000
30-9-2007	Debenture Interest A/c Dr.	2,25,000	

	(50,000-8000)x 100 x 9% x 6/12)		
	To Bank A/c		1,89,000
	Debenture interest account Dr	24000	
	To Interest on Own Debentures a/c (8,000 x 100 x 9% x 4/12)		24,000
31-12-2007	Debenture interest account Dr	18000	
	To Interest on Own Debentures a/c (8,000 x 100 x 9% x 3/12)		18,000
31-12-2007	Debentures A/c Dr. (5,000 x 100)	5,00,000	
	To Own Debentures		490000
	To Profit on cancellation		10000
	[784000/8000] x 5000		
31-1-2008	Bank A/c Dr.	2,08,000	
	To Own Debentures (2,000 x 101)		1,96,000
	To Interest on Own Debentures (2,000 x 100 x 9% x 4/12)		6,000
	To Profit on sale of Own debentures		4,000
31-3-2008	Debenture Interest a/c Dr. (50,000 – 5,000) x 100 x 9% x 6/12)	2,02,500	
	To Bank A/c (45,000 – 1,000) x 100 x 9% x 6/12		1,98,000
	To Interest on Own Debentures (1,000 x 100 x 9% x 6/12)		4,500

Solution to Question No. 3 (b)

Highlight: Closing Debtors are not given. Prepare Working Note and then identify.

Working Note 1:

Cost	100
Mark up	60
Invoice Price	160
Markup on cost	60/100 or 3/5
Markup on HP price	3/8 (60/160)

To Balance b/d		By Stock Reserve (2,40,000 x 3/8)	90,000
➔ HP Stock	2,40,000	By Goods sent on HP (3,60,000 x 3/8)	3,60,000
➔ HP Debtors	45,000	By Cash	3,00,000
To Goods sent on HP	9,60,000	By Balance c/d	
To Stock Reserve (6,40,000 x 3/8)	2,40,000	➔ HP Stock	6,40,000
To Profit and Loss A/c (Net Profit)	**2,10,000**	➔ HP Debtors [Refer Working Notes]	3,05,000
`	**16,95,000**		**16,95,000**

Working Notes:

HP Stock			
To Balance b/d	45,000	By HP Debtors [Balancing figure]	**5,60,000**
To Shop Stock	6,00,000	By Balance c/d	6,40,000
To HP Adjustment	3,60,000		
	12,00,000		**12,00,000**

HP Debtors			
To Balance b/d	45,000	By Cash	3,00,000
To HP Stock	5,60,000	**By Balance c/d**	**3,05,000**
	6,05,000		**6,05,000**

Alternatively: Under Stock and Debtors system:

HP Adjustment			
To Stock Reserve (Closing) [6,40,000 x 3/8]	2,40,000	By Stock Reserve	90,000
To HP Profit & Loss A/c	**2,10,000**	By HP Stock	3,60,000
	4,50,000		**4,50,000**

4. (a) Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2008 : 8

Cash Flow Abstract

Inflows	Rs.	Outflows	Rs.
Opening Balance :		Payment to creditors	90,000
Cash	10,000	Salaries and wages	25,000
Bank	70,000	Payment of overheads	15,000
Share capital—shares issued	5,00,000	Fixed assets acquired	4,00,000
Collection from debtors	3,50,000	Debentures redeemed	50,000
Sales of Fixed assets	70,000	Bank loan repaid	2,50,000
		Taxation	55,000
		Dividends	1,00,000
		Closing balance :	
		Cash	5,000
		Bank	10,000
	10,00,000		10,00,000

Prepare Cash flow statement for the year ended 31st March, 2008 in accordance with Accounting Standard-3.

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Cell: 094440 48990

(b) X, Y and Z are partners of the firm XYZ & Co., sharing Profits and Losses in the ratio of 4 : 3 : 2. Following is the Balance Sheet of the firm as as 31st March, 2008 : 8

Balance Sheet as at 31st March, 2008

Liabilities	Rs.	Assets	Rs.
Partners Capital :		Fixed assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General reserve	90,000		
Sundry creditors	3,20,000		
	13,10,000		13,10,000

Partners of the firm decided to dissolve the firm on the above said date. It was found that a credit purchase of Rs. 20,000 in January, 2008 had not been recorded in the books of the firm.

Fixed assets realised Rs. 5,20,000 and book debts Rs. 4,40,000.

Stocks were valued at Rs. 2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to Rs. 6,000.

You are required to prepare :

(i) Realisation account

(ii) Partners Capital account

(iii) Cash account.

Solution to Question No. 4 (a)

(A) Cash flow from operating activities		
Collection from Debtors	3,50,000	
Less:		
Payment to creditors	(90,000)	
Salaries and wages	(25,000)	
Payment of overheads	(15,000)	
Cash generated from operations	2,20,000	
Less: Tax Paid	(55,000)	
Net Cash Flow from Operating Activities		**1,65,000**
(B) Cash flow from Investing activities		
Sale of fixed assets	70,000	
Purchase of fixed assets	(4,00,000)	
Net Cash Flow from Investing Activities		**(3,30,000)**

(c) Cash flow from financing Activities		
Issue of shares	5,00,000	
Redemption of debentures	(50,000)	
Repayment of Bank Loan	(2,50,000)	
Dividend Paid	(1,00,000)	
Net Cash Flow from Financing Activities		**1,00,000**
Net decrease in cash & cash equivalent		**(65,000)**
Opening cash & cash equivalent		**80,000**
Closing cash & cash equivalent		**15,000**

Working Note 1:		
Cash and cash equivalent		
	Opening	**Closing**
Cash	10,000	5,000
Bank	70,000	10,000
	80,000	**15,000**

Solution to Question No. 4 (b)

Realization Account				
To Fixed assets	5,00,000	By Sundry Creditors (3,20,000 + 20,000)		3,40,000
To Stock in trade	3,00,000	By Cash		
To Sundry Debtors	5,00,000	→ Fixed Assets		5,20,000
To Cash (Realization Expenses)	6,000	→ Book debts		4,40,000
To Cash (Creditors) (3,40,000 – 5% x 3,40,000)	3,23,000	By Y [Stock]		2,50,000
		By X	**35,111**	
		By Y	**26,333**	
		By Z	**17,556**	**79,000**
	16,29,000			**16,29,000**

Partner's Capital A/c							
	X	**Y**	**Z**		**X**	**Y**	**Z**
To Realization [Takeover of Stock]	-	2,50,000	-	By Balance b/d [Refer W.N.1]	3,91,111	2,93,333	1,95,556
To Realization A/c	35,111	26,333	17,556	By General Reserve	40,000	30,000	20,000
To Cash a/c	3,96,000	47,000	1,98,000				
	4,31,111	**3,23,333**	**2,15,556**		**4,31,111**	**3,23,333**	**2,15,556**

Cash Account				
To Balance b/d	10,000	By Realization (Expenses)		6,000
To Realization		By Realization (Creditors)		3,23,000
→ Fixed Assets	5,20,000	By X	**3,96,000**	
→ Book Debts	4,40,000	By Y	**47,000**	
		By Z	**1,98,000**	**6,41,000**
	9,70,000			**9,70,000**

Working Note: 1
Rectification Entry

1) Purchases	20,000	
To Creditors		20,000
2) X	8,889	
Y	6,667	
Z	4,444	
To Purchases		20,000

Effect of Rectification in partner's capital a/c

	X	**Y**	**Z**
Capital	4,00,000	3,00,000	3,00,000
Omission	8,889	6,667	4,444
	3,91,111	**2,93,333**	**1,95,556**

5. (a) Gemini Ltd. came up with public issue of 30,00,000 Equity shares of Rs. 10 each at Rs. 15 per share. A, B and C took underwriting of the issue in 3 : 2 : 1 ratio. 8

Applications were received for 27,00,000 shares.

The marked applications were received as under :

A	8,00,000 shares
B	7,00,000 shares
C	6,00,000 shares

Commission payable to underwriters is at 5% on the face value of shares.

(i) Compute the liability of each underwriter as regards the number of shares to be taken up.

(ii) Pass Journal entries in the books of Gemini Ltd. to record the transactions relating to underwriters.

(b) Following is the Balance Sheet of X Co. Ltd. as at 31st March, 2008 : 8

Balance Sheet as at 31.3.2008

Liabilities		Assets	
Equity share capital (Rs. 100 each)	15,00,000	Land & building	10,00,000
		Plant & machinery	7,00,000
11% Pref. share capital	5,00,000	Furniture & fittings	2,00,000
General reserve	3,00,000	Stock in trade	3,00,000
Sundry creditors	2,00,000	Sundry debtors	2,00,000
		Cash in hand and at bank	1,00,000
	25,00,000		25,00,000

Y Co. Ltd. agreed to take over X Co. Ltd. on the following terms :

(i) Each equity share in X Co. Ltd. for the purpose of absorption is to be valued at Rs. 80.

(ii) Equity shares will be issued by Y Co. Ltd. by valuing its each equity share of Rs. 100 each at Rs. 120 per share.

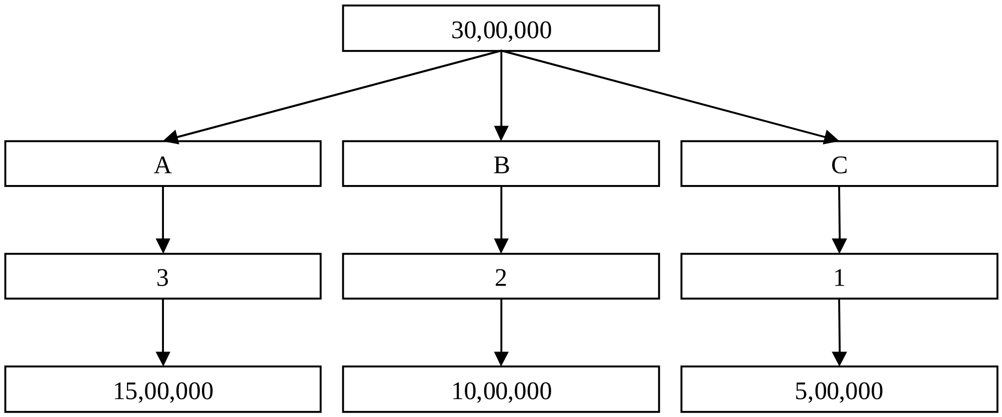
(iii) 11% Preference shareholders of X Co. Ltd. will be given 11% redeemable debentures of Y Co. Ltd. at equivalent value.

(iv) All the Assets and Liabilities of X Co. Ltd. will be recorded at the same value in the books of Y Co. Ltd.

(a) Calculate Purchase consideration.

(b) Pass Journal entries in the books of Y Co. Ltd. for absorbing X Co. Ltd.

Solution to Question No. 5 (a)



Gross Liability Ratio = 15: 10: 5 or 3: 2: 1

Working Note: 1

	A	B	C	Total
Gross Liability	15,00,000	10,00,000	5,00,000	30,00,000
Less: Marked applications	8,00,000	7,00,000	6,00,000	21,00,000
	7,00,000	**3,00,000**	**(1,00,000)**	**9,00,000**
Less: Un-marked applications [27,00,000 – 21,00,000] + 1,00,000in the ratio 3:2	(4,20,000)	(2,80,000)	1,00,000)	(6,00,000)
Net Liability of Underwriters	**2,80,000**	**20,000**	**-**	**3,00,000**

Working Note: 2 Net Amount payable / Receivable

	A	B	C	Total
No. of shares	2,80,000	20,000	-	3,00,000
Value /Share	15	15		
Value (Amount payable by underwriter to company)	42,00,000	30,00,000	-	45,00,000
Commission (Payable by company to underwriter)	7,50,000 (15,00,000 x 10 x 5%)	5,00,000 (10,00,000 x 10 x 5%)	2,50,000 (5,00,000 x 10 x 5%)	15,00,000
Net amount receivable / Payable	**34,50,000**	**(2,00,000)**	**(2,50,000)**	**30,00,000**

Journal Entries

1)	A a/c Dr.	42,00,000	
	B a/c Dr.	3,00,000	
	C a/c Dr.	-	
	To Share Capital (3,00,000 x 10)		30,00,000
	To Security Premium (3,00,000 x 5)		15,00,000
2)	Underwriting commission a/c Dr.	15,00,000	
	To A		7,50,000
	To B		5,00,000
	To C		2,50,000
3)	Bank A/c Dr.	34,50,000	
	To A		34,50,000

4)	B A/c Dr.	2,00,000	
	C A/c Dr.	2,50,000	
	To Bank A/c		4,50,000

Solution to Question No. 5 (b)

X Lts ➔ Selling Co.

Y Ltd. ➔ Purchasing Co.

i) Equity Share 15,00,000/100 x 80 = 12,00,000

No. of shares = 12,00,000/120 = 10,000 shares

Value = 12,00,000

Share Capital 10,00,000

Security Premium 2,00,000

ii) 11% Pref. Share Capital = 5,00,000

➔ 11% Pref. Share Capital = 11% Redeemable debentures

= 17,00,000

Journal Entries

1)	Business purchase a/c Dr.	17,00,000	
	To Liquidator of X Ltd.		17,00,000
2)	Land & Building a/c Dr.	10,00,000	
	Plant and Machinery a/c Dr.	7,00,000	
	Furniture and fittings	2,00,000	
	Stock in trade	3,00,000	
	Sundry Debtors	2,00,000	
	Cash in hand	1,00,000	
	To Capital Reserve [Balancing Figure]		6,00,000
	To Sundry Creditors		2,00,000
	To Business Purchase		17,00,000
3)	Liquidator of X Ltd a/c Dr.	17,00,000	
	To Equity Share Capital A/c		10,00,000
	To Security Premium A/c		2,00,000
	To 11% Debentures a/c		5,00,000

It is solved under purchases method as the preference shareholders are taking up changed status in the purchasing company. In case it is taken as merger, then the difference shall be taken up under general reserve

6. Answer any **four** of the following : ' 4×5=20

(a) B Ltd. undertook a construction contract for Rs. 50 crores in April, 2007. The cost of construction was initially estimated at Rs. 35 crores. The contract is to be completed in 3 years. While executing the contract, the company estimated the cost of completion of the contract at Rs. 53 crores.

Can the company provide for the expected loss in the book of account for the year ended 31st March, 2008 ?

(b) List any five related party transactions, which require disclosure as per AS-18.

(c) A Government grant of Rs. 25 lakhs received 3 years ago in respect of a machinery which costs Rs. 200 lakhs, became refundable in March, 2008 :

(i) How the receipt of grant would have been recorded in the books of the recipient ?

(ii) How the refund of grant would be reflected in the books, at the time of its refund ?

(d) Draw a list of direct crop costs and another of common costs in agricultural farming.

(e) List the conditions to be fulfilled as per Accounting Standard 14 (AS 14) for an amalgamation to be in the nature of merger, in the case of companies.

(f) Discuss the treatment of exchange loss relating to Fixed assets as per AS-11 vis-a-vis the Schedule VI disclosure under the Companies Act, 1956.

Solution to Question No. 6 (a)

The Company shall provide for the amount of loss to be suffered out of the total loss of Rs. 3 crores. In case by 31-3-08 the Company had already booked a loss of 1.8 crores before providing for any loss, then the Company had sustained 1.8 crores out of the total loss of Rs. 3 crores. It is fair and just to provide only for a loss of Rs. 1.2 crores.

Solution to Question No. 6(b)

S. No.	Related Party	Related Party Transaction
1	Key management personnel	Salary parameters
2	Subsidiary	Sale to subsidiaries
3	Associate	Purchases from associate
4	Relations of KMP	Loans given
5	JCE	Loans taken from venturer

Solution to Question No. 6 (d)

List of Direct Crop Costs and Common Costs	
Direct Crop Cost	Common Cost
Seed	Maintenance of Draught
Fertilizer, Manure	Animal, Machinery, Implements
Pesticides, Insecticides	Maintenance of Farm Shed
Wages-Notional and Actual	Depreciation
Hire charges of Animal Power, Machinery, Implements	Interest on Borrowed Capital

Running cost of owned machinery and implements	Notional Interest on owned capital
Land Rental-Notional and Actual	

Solution to Question No. 6(c)

It is a situation of grant received related to Specific Fixed Assets

i) Receipt of government grant can be recorded in any one of the following two alternatives:

Alternative: 1

Reduce the receipt of government grant from cost of the asset. Provide depreciation for revised figure

Alternative: 2

Defer the amount of government grant received to a separate account say "Deferred Government Grant" account. This deferred government grant should be transferred to P & L [as income] in the same manner in which depreciation is transferred to P & L a/c

ii)

Possibility 1: If earlier government grant has been reduced from cost of the asset:

Then debit asset account to the extent of refund. Provide depreciation for revised figure over the remaining useful life

Possibility 2: If earlier government grant was deferred:

Debit deferred government grant a/c to the extent of balance available in "Deferred Government Grant" a/c. For the balance amount of refund, debit P & L a/c

Solution to Question No. 6 (e)

Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

If any one or more of the above conditions are not satisfied in an amalgamation, such amalgamation is called amalgamation in the nature of purchase.

Solution to Question No. 6 (f)

At present there is no conflict between schedule VI and AS 11 on the treatment of exchange loss relating to fixed assets (loan taken for financing fixed assets).

The treatment is that the difference shall be transferred to profit and loss account and not to be adjusted in the carrying amount of the fixed assets.

When there was a conflict sometime back, statute ruled superior and AS was sub serving it. Schedule VI was given higher status and non-compliance of AS was ignored. Audit report was not qualified under the instruction of the Institute.