

PAPER – 1 : ADVANCED ACCOUNTING

QUESTIONS

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

1. (i) A firm, which was carrying on business from 1st January 2009, gets itself incorporated as a company on 1st May, 2009. The net sales are Rs.49,00,000, the monthly average of which for the first four months of 2009 is one half of that of the remaining period. Calculate the sales ratio for allocation of pre and post incorporation profit when the accounting year ends on 30th September, 2009.
- (ii) P and Q are partners sharing profits in the ratio of 4:1. P surrenders 1/4th of his share and Q surrenders ½ of his share in favour of R, a new partner. What is the sacrificing ratio and the new profit sharing ratio of all the partners?
- (iii) A, B and C are partners sharing profits and losses in the ratio of 3:2:1 with a minimum guaranteed profit of Rs.12,000 payable to C. If any amount payable to C is in excess of Rs.12,000 as his share of profit in any year then firm had a right to recoup it. During 2008-09 and 2009-10 profits were Rs.39,000 and Rs.81,000. Calculate the amount to be distributed as profit to A & B in these two years.
- (iv) On 31st March, 2010 Maya Bank Ltd. finds that:
 - (1) On a term loan of Rs.2 crores, interest for the last three quarters is in arrears beyond the due date.
 - (2) The amount of Rs.10 lakhs of a discounted bill was due on 31st January, 2010 but the same has not been received.
 - (3) On a term loan of Rs.1 crore, interest for the last one month is past due.Which of the above advances, will be treated as non-performing assets (NPA) as on 31st March, 2010?
- (v) A company issued 1,000 12% debentures of Rs.500 each at Rs.450, redeemable after five years at 10% discount. However, the company gave an option to the debentureholders to get their debentures converted into equity shares of Rs.50 any time after expiry of one year.

A holder of 120 debentures, informed the company in the beginning of the third year that he wanted to exercise the option of conversion of debentures into equity shares. The company accepted his request and converted his debentures into shares.

Pass the necessary journal entry to record the conversion of debentures into shares.
- (vi) An unquoted long-term investment is carried in the books at cost of Rs. 2 lac. The published accounts of unlisted company received in May, 2009 showed that the company has incurred cash losses with decline market share and the long-term investment may not fetch more than Rs. 20,000. How you will deal with it in the financial statement of investing company for the year ended 31.3.2009.

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- (vii) On 1st April, 2009 a car company sold to Arya Bros., a motor car on hire-purchase basis. The total hire-purchase price was Rs. 4,60,000 with down payment of Rs. 1,60,000. Balance amount was to be paid in three annual instalments of Rs. 1,00,000 each. The first instalment payable on 31st March, 2010. The cash price of the car was Rs. 4,00,000.

How will Arya Bros. account for interest over three accounting years assuming books of accounts are closed on 31st March every year.

- (viii) According to Accounting Standard 9, when revenue from sales should be recognised?
- (ix) A Company follows April to March as its Financial Year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of financial statement by debiting cheques in hand A/c and crediting Debtors A/c. The cheques in hand are shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?
- (x) Mention the condition when a 'cash credit overdraft account' is treated as 'Out of order'.

Preparation of Financial Statements of Companies

2. The following items were extracted from the Balance Sheet of Xansa Ltd. as on 1st April, 2009:

	Rs.
13½% Preference Share capital	4,00,000
Equity Share Capital fully paid up	5,00,000
Equity Share Capital 60% partly paid up	3,00,000
Securities Premium	7,00,000
15% Debentures	10,00,000

Profit before interest on debentures and before payment of tax @ 30% is Rs. 11,50,000 for the year ended 31st March, 2010.

The Board of Directors of the Company proposed a dividend of 15% on equity capital and capitalisation of profits for making partly paid-up shares into fully paid up. Corporate dividend tax is payable @ 15%.

Pass the necessary Journal entries to incorporate the Board's recommendations and show how the items concerned would be shown on the liabilities side of the Balance Sheet of Xansa Ltd. as on 31st March, 2010.

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Cash Flow Statement

3. The Balance Sheets of a Company as on 31st March, 2009 and 2010 are given below:

Liabilities	31.3.09 Rs.	31.3.10 Rs.	Assets	31.3.09 Rs.	31.3.10 Rs.
Equity Capital	15,00,000	17,00,000	Fixed Assets	15,30,000	20,60,000
General Reserve	1,80,000	2,10,000	9% Investments (Long term)	90,000	2,40,000
Profit & Loss A/c	1,50,000	6,00,000	Debtors	1,20,000	2,25,000
12% Debentures	3,00,000	4,50,000	Stock	5,70,000	5,55,000
Creditors	60,000	2,25,000	Cash in hand	1,80,000	5,40,000
Bills payables	60,000	50,000	Underwriting Commission	7,500	9,000
Bank overdraft	30,000	25,000	Discount on issue of debentures	22,500	6,000
Proposed dividend	1,80,000	2,25,000			
Provision for tax	30,000	60,000			
Provision for doubtful debts	30,000	45,000			
Unpaid interest on debentures		35,000			
Unpaid dividend	_____	10,000		_____	_____
Total	25,20,000	36,35,000	Total	25,20,000	36,35,000

Additional information:

During the year ended 31st March, 2010 :

- (i) A machine costing Rs. 2,10,000 (depreciation provided thereon Rs. 90,000) was sold for Rs. 75,000. Depreciation charged during the year was Rs. 2,10,000.
- (ii) New shares and debentures were issued on 31st March, 2010.
- (iii) Tax paid during the year was Rs. 15,000.
- (iv) An interim dividend @ 15% was paid on equity shares.
- (v) On 31st March, 2010 some investments were purchased for Rs. 2,70,000 and some investments were sold at a profit of 20% on sale.

You are required to prepare cash flow statement as per AS 3.

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Profit or Loss Prior to Incorporation

4. Fresh Look Ltd. was incorporated on 1.7.2009 and it took over the business of a vendor w.e.f. 1.4.2009. Following information was made available for the year ended 31.3.2010:

Gross profit Rs.98,000, Commission Rs.2,625, Advertisement Rs.5,250, Discount Rs.350, Directors Fees Rs.9,000, Salaries Rs.18,000, Depreciation Rs.2,800. Insurance Rs.600, Preliminary Expenses Rs.700, Rent and Taxes Rs.3,000, Bad Debts Rs.1,250, Interest to vendor (upto 1.10.2009) Rs.2,000, Audit Fee Rs.2,000 and Bad Debts recovered (on 1.5.2009) Rs.500.

Following additional information was provided:

1. Average monthly turnover from September onwards was double than that of average monthly turnover of the first four months. However, in August, 2009, the turnover was 150% of the turnover in the following month.
2. Rent for the first three months was paid @ Rs. 20 per month and thereafter, it was increased by Rs. 50 per month.
3. Bad debts for the period from September 1, 2009 to March 31, 2010 amount to Rs.350 only.
4. Audit fee was allocated on time basis.

You are required to find out the amount of profit for pre and post incorporation period, clearly showing, the basis of allocation.

Accounting for Bonus Issue

5. The Balance Sheet of Assured Ltd. as at 31.3.2010 is as follows:

Balance Sheet as at 31.3.2010

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital: 1,50,000 Equity Shares of Rs. 10 each	<u>15,00,000</u>	Sundry Assets	17,00,000
Issued, Subscribed and Paid-up 80,000 Equity Shares of Rs. 7.50 each called up and paid up	6,00,000		
Reserves and surplus:			
Capital Redemption Reserve	1,50,000		
Plant Revaluation Reserve	20,000		
Securities Premium Account	1,50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
General Reserve	<u>3,00,000</u>		
	<u>17,00,000</u>		<u>17,00,000</u>

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The company wanted to issue bonus shares to its share holders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with.

- (a) You are required to give effect to the proposal by passing journal entries in the books of Assured Ltd.
- (b) Show the Balance Sheet (after bonus issue).

Employee Stock Option Plan

6. ABC Ltd. grants 1,000 employees stock options on 1.4.2006 at Rs.40, when the market price is Rs.160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapsed on 1.5.2008. 600 options are exercised on 30.6.2009. 100 vested options lapsed at the end of the exercise period.

Pass Journal Entries giving suitable narrations.

Buy Back of Shares

7. Handful Ltd. furnished the following balance sheet as at 31.3.2010: (Rs. in crores)

Liabilities	Amount	Asset	Amount
Authorised Capital	125	Fixed Assets	150
Issued and Subscribed Capital:		Investments	120
13% Redeemable Preference Shares of Rs. 100 each, fully paid	75	Current Assets, Loans and Advances	295
Equity Shares of Rs. 10 each, fully paid	50		
Reserves and Surplus:			
Capital Reserve	50		
Revenue Reserve	250		
Current Liabilities and Provisions	<u>140</u>		
	<u>565</u>		<u>565</u>

The company purchased its own 100 lakh equity shares of Rs. 10 each at Rs. 25 per share on 1.4.2010 out of free reserves. The company also redeemed preference shares on the same date. The payments for the above were made from bank account, which forms part of current assets.

You are required to pass necessary journal entries to record the above and prepare the balance sheet as it would appear after the aforesaid transactions.

Underwriting of Shares

8. Outset Ltd. invited applications from public for 1,00,000 equity shares of Rs.10 each at a premium of Rs.5 per share. The entire issue was underwritten by the underwriters P, Q,

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R and S to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000, 2,000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law.

The company received applications for 70,000 shares (excluding firm underwriting) from public out of which applications for 19,000, 10,000, 21,000 and 8,000 shares were marked in favour of P, Q, R and S respectively.

Calculate the liability of each underwriter. Also ascertain the underwriting commission payable to different underwriters.

Redemption of Debentures

9. On 1st January, 2004, Limited issued fifteen years debentures of Rs.100 each bearing interest at 10% p.a. One of the conditions of issue was that the company could redeem the debentures by giving six months' notice at any time after 5 years, at a premium of 4% either by payment in cash or by allotment of preference shares and/or other debentures at the option of the debenture holders.

On 1st April, 2009 the Company gave notice to the debenture holders of its intention to redeem the debentures on 1st October, 2009 either by payment in cash or by allotment of 11% preference shares of Rs.100 each at Rs.130 per share or 11% Second Debentures of Rs.100 each at Rs.96 per debenture.

Holders of 4,000 debentures accepted the offer of the preference shares; holders of 4,800 debentures accepted the offer of the 11% second debentures and the rest demanded cash on 1st October, 2009.

Give the journal entries to give effect to the above as of 1st October, 2009.

Amalgamation of Companies

10. Given below are the balance sheets of Huge Ltd and Big Ltd. as on 31.12.2009. Big Ltd. was merged with Huge Ltd. with effect from 1.1.2010.

Balance Sheets as on 31.12.2009

(Rs.)

Liabilities	Huge Ltd.	Big Ltd.	Assets	Huge Ltd.	Big Ltd.
Share capital :			Sundry fixed assets	9,50,000	4,00,000
Equity shares of Rs. 10 each	7,00,000	2,50,000	Investments (Non-trade)	2,00,000	50,000
General reserve	3,50,000	1,20,000	Stock	1,20,000	50,000
Profit and loss A/c	2,10,000	65,000	Debtors	75,000	80,000
Export profit reserve	70,000	40,000	Advance tax	80,000	20,000
12% Debentures	1,00,000	1,00,000	Cash and bank	2,75,000	1,30,000
Sundry creditors	40,000	45,000	Preliminary expenses	10,000	

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Provision for taxation	1,00,000	60,000			
Proposed Dividend	<u>1,40,000</u>	<u>50,000</u>			
	<u>17,10,000</u>	<u>7,30,000</u>		<u>17,10,000</u>	<u>7,30,000</u>

Huge Ltd. would issue 12% debentures to discharge the claims of the debenture holders of Big Ltd. at par. Non-trade investments of Huge Ltd. fetched @ 25% while those of Big Ltd. fetched @ 18%. Profit of Huge Ltd. and Big Ltd. during 2007, 2008 and 2009 were as follows:

Year	Huge Ltd. Rs.	Big Ltd. Rs.
2007	5,00,000	1,50,000
2008	6,50,000	2,10,000
2009	5,75,000	1,80,000

Goodwill may be calculated on the basis of capitalization method taking 20% as the normal rate of return. Purchase consideration is discharged by Huge Ltd. on the basis of intrinsic value per share. Both companies decided to cancel the proposed dividend.

Pass Journal Entries and prepare the balance sheet of Huge Ltd. after the merger.

Internal Reconstruction

11. Given below is the balance sheet of Rebuilt Ltd. as on 31.3.2010:

Liabilities	Amount Rs.	Assets	Amount Rs.
Authorised and issued capital:		Building at cost less depreciation	4,00,000
12,000, 7% Preference shares of Rs. 50 each (Note: Preference dividend is in arrear for five years)	6,00,000	Plant at cost less depreciation	2,68,000
15,000 Equity shares of Rs. 50 each	<u>7,50,000</u>	Trademarks and goodwill at cost	3,18,000
	13,50,000	Stock	4,00,000
Loan	5,73,000	Debtors	3,28,000
Sundry creditors	2,07,000	Preliminary expenses	11,000
Other liabilities	<u>35,000</u>	Profit and loss A/c	<u>4,40,000</u>
	<u>21,65,000</u>		<u>21,65,000</u>

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

- (a) The equity shareholders have agreed that their Rs. 50 shares 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 the company after reconstruction. The nominal capital as reduced is to be increased to Rs.6,50,000 for preference share capital and Rs.7,50,000 for equity share capital.

Liquidator's Statement of Account

12. Given below is the Balance Sheet of Sum up Ltd. as on 31st March, 2010:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets:	
1,000, 6% Preference Shares of Rs. 100 each fully paid up	1,00,000	Machinery	1,90,000
2,000, Equity Shares of Rs. 100 each fully paid up	2,00,000	Furniture	10,000
2,000 Equity Shares of Rs. 100		Current Assets:	
		Stock	1,20,000
		Debtors	2,40,000

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each, Rs. 75 paid up	1,50,000	Cash at Bank	50,000
Loan – Bank (secured on stock)	1,00,000	Miscellaneous Expenditure:	
Current Liabilities and Provision:		Profit and Loss Account	3,00,000
Creditors	3,50,000		
Income-tax Payable	<u>10,000</u>		<u> </u>
	<u>9,10,000</u>		<u>9,10,000</u>

The company went into liquidation on 1st April, 2010. The assets were realised 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 excluding payment made to preferential 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.

Financial Statements of Banking Companies

13. (a) The following is an extract from the Trial Balance of a Bank as at 31st March, 2010:

	Rs.	Rs.
Bills discounted	51,50,000	
Rebate on bills discounted not yet due, April 1, 2009		30,501
Discount received		1,45,500

An analysis of the bills discounted as shown above shows the following:

Date of Bills	Amount (Rs.)	Term Months	Discounted percentage p.a.
January 13	7,50,000	4	12
February 17	6,00,000	3	10
March 6	4,00,000	4	11
March 16	2,00,000	2	10

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Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate Journal Entries for the same. How the relevant items will appear in the Bank's Balance Sheet?

- (b) From the following information prepare Profit and Loss Account of Sanchay Bank for the year ended on 31st March, 2010.

	Rs. (000)		Rs.(000)
Interest on Loans	2,590		
Interest on Fixed Deposits	3,170	Interest on Overdrafts	1,540
Rebate on Bills Discounted	490	Directors' Fees, Allowances and Expenses	30
Commission	82	Auditors' Fees and Expenses	12
Payment to Employees	540	Interest on Savings Bank Deposits	680
Discount on Bills Discounted (Gross)	1,550	Postage, Telegrams & Telephones	14
Interest on Cash Credits	2,230	Printing and Stationery	29
Rent, Taxes and Lighting	180	Sundry Charges	17

Additional information:

- (i) Provide for Contingencies Rs.2,00,000.
- (ii) Transfer Rs.15,57,000 to Reserves and
- (iii) Transfer Rs.2,00,000 to Central Government.

Financial Statements of Insurance Companies

14. The following figures have been extracted from the books of New India Insurance Company Ltd. in respect of their Marine Business for 2009-2010:

(Rs. in lakhs)

Direct Business Premium Income received	50.00	Commission paid on Direct Business	5.00
Reserve for unexpired risks as on 1.4.2009	60.00	Expenses of Management	5.00
Claims outstanding as on 1.4.2009 (net)	20.00	Income tax deducted at source	3.00
Bad Debts	10.00	Profit and Loss Account (Cr.) balance as on 1.4.2009	10.00

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Income from investment and dividends (gross)	10.00	Other expenses	1.25
Rent received from properties	5.00	Reinsurance premium receipts	5.00
Investment in government securities as on 1.4.2009	100.00	Outstanding claims as on 31.3.2010 (net)	30.00
Investment in shares as on 1.4.2009	20.00	Direct claims paid (gross)	25.00
		Reinsurance claims paid	4.00

Prepare a Revenue Account and Profit and Loss Account for the year after taking into account the following further information:

- (a) All direct risks are reinsured for 20% of the risk.
- (b) Claim a Commission of 25% on reinsurance ceded.
- (c) Provide 25% Commission on reinsurance accepted
- (d) Market value of investments as on 31st March, 2010 is as follows:
 - (i) Government Securities Rs. 105 lakhs.
 - (ii) Shares Rs. 18 lakhs.

Adjust separately for each of these two categories of investments.

- (e) Provide 65% for Income tax.

Financial Statements of Electricity Supply Companies

15. (a) An Electric Supply Company rebuilds its Mains at the cost of Rs.19,90,000. This excludes value of Rs.13,800 material of old Main used for new one. The original mains were constructed at a cost of Rs.9,90,000. the ratio of material and labour then was 7:3. The increase in material prices is $12\frac{1}{2}\%$ and wage rates 15%. Materials worth Rs.25,200 from old works was sold.
Show Journal entries and prepare Mains Account and Replacement A/c under Double Accounts System for the above and determine the net cost of replacement.
- (b) From the following details of Prakash electricity supply company, maintaining accounts under Double Account System, calculate the following:
 - (a) clear profit (b) capital base (c) reasonable return (d) disposal of surplus and (e) statement of disposal.

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	Rs.
Sale of energy	12,40,000
Meter rents	90,000
Transfer fees	1,000
Costs of generation	6,05,000
Distribution and selling expenses	65,000
Rent, Rates and Taxes	18,000
Audit fees	5,000
Intangibles written off	3,000
Management expenses	90,000
Depreciation	60,000
Interest on loan from Electricity Board	9,000
Contingency Reserve Investment Income	5,000
Interest on Security Deposits	1,000
Contribution to Provident Fund	32,000
Interest on Bank Deposits	600

Original Cost of Fixed Assets is Rs.27,00,000; Contributions by consumers for acquisition of such Fixed Assets Rs.2,00,000; cost of intangibles Rs.50,000; Contingency Reserve Investment Rs.50,000; Stores (monthly average) Rs.50,000 and Cash and Bank balances (monthly average) Rs.40,000.

Depreciation upto the beginning of the year Rs.5,00,000. Intangibles written off upto the beginning of the year Rs.40,000. Security deposits of customers held in cash Rs.20,000, Tariffs and Dividend Control Reserve Rs.80,000. Development Reserve Rs.1,20,000.

Amount carried forward for distribution to consumers Rs.15,000. Loan from State Electricity Board Rs.90,000. No new Plant and Machinery was added in the year. Transfer in the year to Contingency Reserve was Rs.8,000. Reserve Bank rate is to be adopted at 8%.

Average Due Date

16. (a) Rs. 20,000 is lent by Aaj to Kal on 1 January 2006. The loan is repayable in five equal instalments commencing from 1 January 2008. Calculate the average due date and interest at 12% p.a.

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Account Current

- (b) The following are the transactions that took place between You and Me during the half year ended 30 June, 2010:

		Rs.
1 January	Balance due to You by Me	3,010
7 January	Goods sold by You to Me	4,430
16 February	Goods purchased by You from Me	6,480
18 February	Goods returned by You to Me (out of the purchases of 16 February)	560
24 March	Goods sold by Me to You	3,560
22 April	Goods purchased by Me	1,500
29 April	Cash paid by You to Me	2,500
17 May	Goods sold by You to Me	2,710
22 June	Goods sold by Me to You	2,280

Draw up an account current to be rendered by Me to You charging interest at 10% per annum.

Self Balancing Ledgers

- (c) The details of the balances owed by customers were as follows as on 1st April 2010:

	Rs.
X	15,000
Y (6% considered to be bad; adequate provision maintained)	21,000
Z	18,000
Other customers	<u>3,56,000</u>
	4,10,000
Less: Advance by P	<u>20,000</u>
	<u>3,90,000</u>

Sales during the month amounted to Rs. 5,55,000 including a cash sale of Rs. 1,14,000; of the credit sales, Rs. 26,000 was to P. X returned goods to the extent of Rs. 6,000 and sent a bill receivable for the balance. A sum of Rs. 4,500 was received from Y and the balance was written off. On instructions from B, Z's balance was transferred to B's account in the creditors ledger. The acceptance of X was dishonoured and noting charges paid were Rs. 150. D sent an advance of Rs.

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18,000 for supply of goods, Out of the amount due from "Other Customers" on 1st April 2010, Rs. 2,73,000 was received; the customers had earned 2½% discount on the gross amount paid. Similarly, out of the sale in April, a sum of Rs. 97,500 has been received, earning discount at same rate.

Q, who owed Rs. 11,000 and H who owed Rs. 8,000, turned doubtful; a provision of 50% of the amounts due was created. Other debts were considered all good.

Prepare Total Debtors Account for April 2010.

Accounts for Not-for Profit Organization

17. The following details related to the affairs of the Fun Club for the year ending 31st December 2009:

As on 31.12.2008

Creditors Rs. 10,000; Subscriptions for 2009 Rs. 3,000; Liabilities for Salaries Rs. 7,000; Arrears of Subscriptions 2007 Rs. 19,000; Arrears of Subscriptions 2008 Rs. 30,000; Investments 4% Bonds Rs. 15,000; Stock Rs. 6,000.

As on 31.12.2009:

Creditors Rs. 5,000; Subscriptions for 2010 Rs.4,000; Cash at Bank Rs.17,700; Arrears of Subscriptions for 2008 Rs.10,000; Arrears of Subscriptions for 2009 Rs. 27,000; Members' arrears for provisions sold Rs. 4,000.

Details of Transaction during 2009:

Arrears of 2007 collected Rs. 18,000; Arrears of 2008 collected Rs. 17,000; Cash sales of provisions Rs. 12,000; Salaries paid Rs. 40,000; Interest received Rs. 450; 4% Bonds purchased Rs. 10,000 on 1.1.2009; Cash purchases of provision Rs. 9,000; Credit sale of provision to members Rs.90,000.

Other details:

Demand of Subscription during 2009 was Rs. 70,000; Total purchase of provision Rs.1,09,000; Profit on Provisions Rs. 12,000; the salaries for the year 2009 were Rs.45,000 and Rent Rs. 2,000.

From the above information prepare:

- (a) Opening Balance Sheet,
- (b) Closing Balance Sheet,
- (c) Receipts and Payments Account for the year 2009, and
- (d) Income and Expenditure Account for the year 2009.

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Accounts from Incomplete Records

18. Shri Ram furnishes you with the following information relating to his business :

(a)

Assets and liabilities as on	1.1.2009 Rs.	31.12.2009 Rs.
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry Debtors	16,000	?
Sundry Creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

(b) Receipts and payments during 2009:

Collections from debtors, after allowing discount of Rs. 1,500 amounted to Rs.58,500. Collections on discounting of bills of exchange, after deduction of discount of Rs. 125 by the bank, totalled to Rs. 6,125. Creditors of Rs. 40,000 were paid Rs. 39,200 in full settlement of their dues. Payment for freight inwards Rs.3,000. Amount withdrawn for personal use Rs.7,000. Payment for office furniture Rs.1,000. Investment carrying annual interest of 4% was purchased at Rs.96 on 1st July, 2009 and payment made there for. Expenses including salaries paid Rs. 14,500. Miscellaneous receipts Rs. 500.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 10,000. Of these, bills of exchange of Rs. 2,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 400 was dishonoured.

(d) Goods costing Rs. 900 were used as advertising materials.

(e) Goods are invariably sold to show a gross profit of $33\frac{1}{3}\%$ on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction by Shri Ram.

(g) Provide at 2.5% for doubtful debts on closing debtors.

Shri Ram asks you to prepare Trading and Profit and Loss A/c for the year ended 31st December, 2009 and the balance sheet as on that date.

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Hire Purchase Transactions

19. (a) Sun Moon Corporation sells goods on hire-purchase basis. The hire-purchase price is cost plus 50%. From the following information, prepare Hire-purchase Trading Account for the year ended 31st March, 2010:

	Rs.
Hire-purchase stock reserve on 1.4.2009	1,20,000
Instalments due on 1.4.2009	30,000
Goods sold on hire-purchase during the year	8,40,000
Instalments due on 31.3.2010	70,000
Hire-purchase stock reserve on 31.3.2010	1,80,000

Investment Accounts

- (b) Anshu invests and disinvests from time to time in 10% Non-convertible Debentures (NCD) of Zero Ltd. on FIFO basis. From the following transactions, prepare Investment account as it would appear in her books:

15.6.2009	Purchased	3,000 NCD, ex-interest @ Rs. 96 each
15.9.2009	Sold	3,000 NCD, ex-interest @ Rs. 100 each
15.12.2009	Purchased	2,000 NCD, cum interest @ Rs. 99 each
15.2.2010	Sold	2,000 NCD, cum interest @ Rs. 102 each

Opening balance of NCD of Rs. 100 each was Rs. 2,00,000 on 1.4.2009 and Cost of acquisition was Rs. 1,80,000. Interest payment dates on NCD are 30th June and 31st December. Anshu follows financial year as accounting year.

Branch Accounts

20. (a) M/s Surplus commenced business on 1.04.2009 with the head office at Ahmedabad and branch at Surat. All goods were purchased by head office and normally packed immediately, but on 31.3.2010, goods costing Rs. 5,000 remained unpacked. Only the packed goods were sent to the branch which was charged at selling price less 10%. The following information is furnished to you as on 31st March 2010, from the Head Office and Branch Office books:

Particulars	H.O. (Rs.)	Branch (Rs.)
Capital Account	40,000	
Drawings by Proprietor	10,000	
Purchases	4,00,000	
Packing materials bought	6,000	

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Sales	3,20,000	1,00,000
Despatch of goods to Branch	1,13,400	
Selling expenses	16,000	800
Clerk's salary, wages, etc.	20,000	3,000
Sundry Debtors	28,000	4,200
Sundry Creditors	26,600	5,000
Head Office Current A/c		12,000
Branch Office Current A/c	19,000	
Bank Balances	2,000	
Goods received from Head Office		1,08,000

Information

- (a) Sales by head office were on uniform gross profit, after charging packing materials, at 20% on the fixed selling price.
- (b) Sales at Branch were at fixed selling price.
- (c) Goods invoiced and despatched by head office to branch in March 2010 for Rs. 5,400 were received in the Branch only on 10th April.
- (d) Stock of packing materials at head office as on 31st March 2010 was valued at Rs. 1,000.
- (e) Remittance of Rs. 1,600 from the branch to the Head Office was in transit on 31.3.2010.
- (f) Rs. 2,000 worth of stock at selling price was damaged at the branch. For valuing stock, this was reduced by Rs. 1,090 below the invoice cost to the branch. It was decided that the Head office and branch would share equally the loss occasioned by this and also the deficit in stock, ascertained on actual stock taking at the Branch of goods at selling price of Rs. 500.

Prepare Trading and Profit and Loss Account of Surat and Ahmedabad Office and also a Balance Sheet as at 31.3.2010 of the business.

Departmental Accounts

- (b) M/s Maalamaal Limited has three departments A, B and C. From the particulars given below compute:
 - (a) the values of stock as on 31st December, 2009 and
 - (b) the departmental trading results.

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(i)	A Rs.	B Rs.	C Rs.
Stock as on 1 st January, 2009	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual sales	1,72,500	1,59,400	74,600
G.P. on normal selling prices	20%	25%	33 $\frac{1}{3}$ %

- (ii) During the year certain items were sold at discount and these discounts were reflected in the values of sales shown above. The items sold at discount were:

	Deptt A Rs.	Deptt. B Rs.	Deptt. C Rs.
Sales at normal prices	10,000	3,000	1,000
Sales at actual prices	7,500	2,400	600

Insurance Claim

21. A fire occurred in the premises of Jogi Sons on 15th October, 2009 and normal business operations were restored on 1st April, 2010. The company had taken loss of profit policy for Rs. 1,50,000 with indemnity period of six months and a clause for adjustment of 20% to be made in respect of the expected incremental turnover.

From the following information compute amount of claim under "Loss of Profit" policy:

	Rs.
Actual turnover from 15 th October, 2009 to 31 st March, 2010	1,20,000
Turnover during the corresponding period of previous year	2,40,000
Turnover from 15 th October, 2008 to 14 th October, 2009	4,80,000
Net profit for the last financial year	90,000
Insured standing charges for the last financial year	67,500
Turnover for the last financial year	4,50,000

Partnership Accounts

22. X, Y and Z are in partnership sharing Profits and Losses in the ratio 2 : 2: 1. Partnership deed provides that all the partners are entitled to interest @ 9% per annum on fixed capital of Rs. 2,00,000 contributed in profit sharing ratio. Z is entitled for 10% commission of net profit after such commission, for special performance.

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On 1.9.2009, it was decided to retire X on health grounds and admit A, the son of X as partner with 1/5th share in Profit and Loss. Other decisions taken on this date were as follows:

- (a) Firm's fixed capital to be raised to Rs. 3,00,000 and partners to maintain fixed capital in profit sharing ratio. Hence forth, interest on capital shall be paid @ 10% per annum.
- (b) No commission to be paid to Z from 1.9.2009.
- (c) Goodwill is assessed at Rs. 60,000 not to be shown in the books.
- (d) X was paid Rs. 50,000 in cash on retirement.
- (e) Balance claim payable to X was to be credited to A's fixed capital account and current account.
- (f) Profit for the accounting year 2009-10 before interest on capital, Z's commission and depreciation was Rs. 1,80,000. Depreciation for the year amounted to Rs.18,500 (inclusive of depreciation of Rs.6,000 upto 1.9.2009)

You are required to prepare:

- (i) Profit and Loss Appropriation account of the firm for the year ended 31st March, 2010.
- (ii) Partners' Current accounts.

Accounting in Computerized Environment

23. Write a short note on prepackaged accounting software?

Accounting Standards

- 24. (a) What are the three major considerations for the selection of any accounting principles and policies?
- (b) Whether interest paid on loan utilized for acquiring inventory be capitalized to the cost of inventory?
- (c) What will be the value of asset acquired in exchange for another asset as per AS 10?
- (d) Whether the borrowing cost incurred on loan borrowed for construction of building on land, is capitalized when the land has been acquired but no construction has been started yet?
- (e) Alpha Ltd. has not disclosed basic EPS and diluted EPS on the face of its Profit and Loss Account as it has incurred a loss during the year. State whether, the company is right in its contentions or not?
- (f) Nischit Ltd. has acquired a generator on 1.4.2009 for Rs. 50 lakhs. On 2.4.2009, it applied to IREDA (Indian Renewable Energy Development Authority) for a subsidy of 10% of the cost as the generator was using solar energy. The subsidy was

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granted in June 2009 after the accounts for 2008-09 were finalised. The company has not accounted for the subsidy for the year ended 31.3.2009. Give your views on the following:

- a. Is this a prior period item?
 - b. How should the subsidy be accounted in accounting year 2009-10?
 - (g) Write short notes on the advantages and disadvantages of setting of Accounting Standards.
 - (h) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3 (AS 3) revised.
 - (i) Write short note on Effect of Uncertainties on Revenue Recognition.
25. (a) On January 2, 2009, Devansh Co. Ltd. bought a trademark from Induga Co. for Rs.10,00,000. Devansh Co. Ltd. hired an independent consultant, who estimated the trademark's remaining life to be 20 years. Its unamortized cost on Induga Co.'s accounting records was Rs.5,00,000. Devansh Co. Ltd. decided to amortize the trademark over the maximum period allowed. In Devansh Co. Ltd.'s December 31, 2009 balance sheet, what amount should be reported as accumulated amortization?
- (b) Nidhi Ltd. purchased raw materials at a basic price of Rs.10,000 on which excise duty of Rs.1500 is paid. Cost of inventory (of raw materials) at this stage would be Rs.11,500. The material is thereafter processed. For this purpose conversion costs (labour and direct overheads, and other fixed production overheads) amounting to Rs.1,800 are incurred. Excise duty liability on finished goods amounting Rs.1,700 is being paid by the company. Company is entitled for a CENVAT credit of Rs.1,500. Compute the value of inventory.
- (c) X Co negotiates with Indian Oil for construction of "franchisee retail petrol, outlet stations". Based on proposals submitted to different Zonal offices of Indian Oil, the final approval for one outlet each in Berhampore, Salem, Vadodara and Warangal is awarded to X Co. Agreement (in single document) is entered into with Indian Oil for Rs.245 lacs. The agreement lays down values for each of the four outlets (Rs. 44 + 66 + 80 + 55 lacs) in addition to individual completion time. Comment whether X Co. will treat it as a single contract or four separate contracts?
- (d) A 1100 cc motor car provides a mileage of 14 km per litre of petrol. The car is put to use for five years. The assessed level of performance is 10 km per litre. A sum of Rs.23,000 is spent on the engine to improve its performance. The performance improves to 14 km per litre. The company wants to expense the amount of Rs.23,000, Comment.
- (e) Asset 'A' is constructed from 1.2.2008 to 30.3.2009 from borrowing of Rs. 10 lakhs taken from SBI on 1.7.2008 at 12% per annum interest. The surplus funds were invested till 31.3.2009 which earned interest Rs. 15,000. Show how much borrowing cost will be capitalized during the year 2008-2009 and 2009-2010. Loan is being repaid in 5 equal annual instalment.

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- (f) Net profit after tax including extraordinary profit/losses for the year ended 31st December, 2009 = Rs.2,00,000
10% cumulative preference shares of Rs. 5,00,000.
Equity share capital: 5,000, Equity shares of Rs. 100 each = Rs.5,00,000.
Equity dividend declared @ 18%. Corporate Dividend Tax 15%.
Calculate EPS assuming that out of 5,000 equity shares, 2,000 equity shares were issued on 1.7.2009.
- (g) A fixed asset was purchased for Rs. 10 lakhs. Government grant received towards it amounted Rs. 4 lakhs. Show the accounting treatment if it is a depreciable asset with Rs. 2 lakhs residual value and 4 years useful life. The company adopts Straight Line method of providing depreciation.
- (h) TVSM company has taken a Transit Insurance Policy. Suddenly in the year 2009-2010 the percentage of accident has gone up to 7% and the company wants to recognise insurance claim as revenue in 2009-2010 in accordance with relevant Accounting Standard. Do you agree?
- (i) State, how you will deal with the following matters in the accounts of U Ltd. for the year ended 31st March, 2010 with reference to Accounting Standards:
- (i) The company finds that the stock sheets of 31.3.2010 did not include two pages containing details of inventory worth Rs. 14.5 lakhs.
 - (ii) The company had spent Rs. 45 lakhs for publicity and research expenses on one of its new consumer product, which was marketed in the accounting year 2009-2010, but proved to be a failure.
- (j) While preparing its final accounts for the year ended 31st March, 2010 a company made a provision for bad debts @ 5% of its total debtors. In the last week of February, 2010 a debtor for Rs. 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2010 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2010?
- (k) 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. State with reason whether the lease constitutes finance lease.
- (l) Victory Ltd. purchased goods on credit from Lucky Ltd. for Rs.250 crores for export. The export order was cancelled. Victory Ltd. decided to sell the same goods in the local market with a price discount. Lucky Ltd. was requested to offer a price

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discount of 15%. The Chief Accountant of Lucky Ltd. wants to adjust the sales figure to the extent of the discount requested by Victory Ltd. Discuss whether this treatment is justified.

- (m) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2010, when the exchange rate was Rs.43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2010 when the exchange rate was Rs.47 per US Dollar. However, on 31st March, 2010, the rate of exchange was Rs.48 per US Dollar. The company passed an entry on 31st March, 2010 adjusting the cost of raw materials consumed for the difference between Rs.47 and Rs.43 per US Dollar.

In the background of the AS 11 (revised), is the company's accounting treatment correct? Discuss.

SUGGESTED ANSWERS/ HINTS

1. (i) Let the average monthly sales of first four months be Rs. 100 per month. Then the average monthly sales of next five months will be Rs.200 per month.

Total sales of first four months= Rs.100 x 4 = Rs.400

Total sales of next five months = Rs.200 x 5 = Rs.1,000.

Sales ratio = 400:1,000 or 2:5.

- (ii) P surrenders $\frac{1}{4}$ th of $\frac{4}{5}$ in favour of R. It means P has surrendered $\frac{1}{4} \times \frac{4}{5} = \frac{1}{5}$ out of his share in favour of R.

Q surrenders $\frac{1}{2}$ of $\frac{1}{5}$ in favour of R. It means Q has surrendered $\frac{1}{2} \times \frac{1}{5} = \frac{1}{10}$ out of his share in favour of R.

Therefore, sacrificing ratio = P $\frac{1}{5}$: Q $\frac{1}{10}$ or 2:1

New profit sharing ratio : P's new share = $\frac{4}{5} - \frac{1}{5} = \frac{3}{5}$

Q's new share = $\frac{1}{5} - \frac{1}{10} = \frac{1}{10}$

R's new share = $\frac{1}{5} + \frac{1}{10} = \frac{3}{10}$

Therefore, the new ratio of P, Q and R = $\frac{3}{5} : \frac{1}{10} : \frac{3}{10}$ or 6:1:3.

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(iii) (1) Distribution of Profits for 2008-09

Total profit is Rs.39,000 and the ratio of distribution is 3:2:1. Hence, the share of A, B and C will be Rs.19,500, Rs.13,000 and Rs.6,500 respectively. But minimum guaranteed profit payable to C is Rs.12,000. Hence, the balance of Rs.27,000 will be distributed between A and B in the ratio of 3:2. Therefore, the share of A and B will be Rs.16,200 and Rs.10,800 respectively.

(2) Distribution of Profits for 2009-10

Total profit is Rs.81,000 and the ratio of distribution is 3:2:1. Hence, the share of A, B and C will be Rs.40,500, Rs.27,000 and Rs.13,500. But C will get only Rs.12,000 and the balance of Rs.69,000 will be distributed between A and B in the ratio of 3:2. Hence, the share of A and B will be Rs.41,400 and Rs.27,600 respectively.

- (iv) (1) A term loan is treated as NPA if interest on it remains past due for a period of more than 90 days. In the present case, interest is in arrears for the last 3 quarters beyond the due date. Hence the term loan is treated as NPA as on 31st March, 2010.
- (2) To be treated as NPA the discounted bill must remain overdue and unpaid for a period of more than 90 days. But in the present case, bill has remained overdue for less than 90 days. Hence the discounted bill is not to be treated as NPA as on 31st March, 2010.
- (3) The term loan of Rs.1 crore is not to be treated as NPA as on 31st March, 2010 because interest is past due for less than 90 days.

(v)

	Rs.	Rs.
12% Debentures A/c Dr.	60,000	
To Discount on redemption of debentures A/c		6,000
To Equity Share Capital A/c		54,000
(Being 1,080 equity shares of Rs.50 each issued to a holder of 120 debentures)		

- (vi) As per AS 13 'Accounting for Investments', investment classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investments.

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The facts of given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to Rs.20,000 in the financial statements for the year ended 31st March, 2009.

(vii) Total interest = Rs.4,60,000 – Rs.4,00,000 = Rs.60,000

Interest is to be allocated in the ratio of 3:2:1

Therefore, Interest for 1st year = $\text{Rs.60,000} \times \frac{3}{6} = \text{Rs.30,000}$

IInd year = $\text{Rs.60,000} \times \frac{2}{6} = \text{Rs.20,000}$

IIIrd year = $\text{Rs.60,000} \times \frac{1}{6} = \text{Rs.10,000}$

(viii) As per AS 9 'Revenue Recognition', revenue from sales should be recognised only when requirements as to performance are satisfied. These requirements can be given as follows:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
 - (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of goods.
- (ix) Even if the cheques bear the date 31st March or before, the cheques received after 31st March do not represent any condition existing on 31st March. Thus, the collection of cheques after balance sheet date is not an adjusting event. Cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though the same may be dated 31st March or before as per AS 4 "Contingencies and Events Occurring After the Balance Sheet Date". Moreover, the collection of cheques after balance sheet date does not represent any material change affecting financial position of the enterprise, so no disclosure in the Director's Report is necessary.
- (x) A cash credit overdraft account is treated as NPA if it remains out of order for a period of more than 90 days. An account is treated as 'out of order' if any of the following conditions is satisfied:
- (a) The outstanding balance remains continuously in excess of the sanctioned limit/drawing power.
 - (b) Though the outstanding balance is less than the sanctioned limit/drawing power –

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- (i) there are no credits continuously for more than 90 days as on the date of balance sheet; or
- (ii) credits during the aforesaid period are not enough to cover the interest debited during the same period.
- (c) Further any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

2. Journal Entries

	Rs.	Rs.
Profit and Loss A/c Dr. To Debenture Interest A/c (Being transfer of debenture interest to profit and loss account)	1,50,000	1,50,000
Profit and Loss A/c Dr. To Provision for Taxation A/c (Being provision for tax made @ 30% on Rs. 10,00,000 i.e. 11,50,000 – 1,50,000)	3,00,000	3,00,000
Profit and Loss A/c Dr. To Profit and Loss Appropriation A/c (Being transfer of net profit to profit and loss appropriation account)	7,00,000	7,00,000
Profit and Loss Appropriation A/c Dr. To General Reserve A/c (Being creation of general reserve @ 5% of net profit, as rate of dividend is 15% as per the Sec. 205 (2A) of the Companies Act read with the Companies (Transfer of Profits to Reserves) Rules, 1975)	35,000	35,000
Profit and Loss Appropriation A/c Dr. To Proposed preference share dividend A/c (Being preference share dividend payable @ 13½% on Rs. 4,00,000)	54,000	54,000
Profit and Loss Appropriation A/c Dr. To Proposed equity share dividend A/c (Being equity share dividend payable @ 15% on Rs. 8,00,000)	1,20,000	1,20,000

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Profit and Loss Appropriation A/c	Dr.	26,100	
To Provision for corporate dividend tax A/c			26,100
(Being provision made for corporate dividend tax @ 15% on total dividend of Rs.1,74,000)			
Profit and Loss Appropriation A/c	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Being partly paid equity shares converted to fully paid up, by capitalization of profit)			

Balance Sheet (Extracts) as on 31st March, 2010

		Rs.
Share capital:		
13½% preference share capital		4,00,000
Equity share capital fully paid up		10,00,000
Reserves and Surplus:		
Securities Premium		7,00,000
General Reserve		35,000
Profit and Loss Appropriation Account		2,64,900
Secured Loan:		
15% Debentures		10,00,000
Provisions:		
Corporate Income-tax		3,00,000
Proposed Dividend:		
Preference	54,000	
Equity	<u>1,20,000</u>	1,74,000
Corporate Dividend Tax		26,100

Note: It is assumed that debenture interest has been paid.

3.

Cash Flow Statement

		Rs
I. Cash flow from operating activities		
Closing Balance as per Profit and Loss A/c	6,00,000	
Less: Opening Balance as per Profit & Loss A/c	<u>1,50,000</u>	

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Profit during the year	4,50,000	
Add: Proposed dividend during the year	2,25,000	
Add: Interim dividend paid during the year	2,25,000	
Add: Transfer to general reserve	30,000	
Add: Provision for Tax (W.N.3)	45,000	
Add: Depreciation	2,10,000	
Add: Interest on debentures	36,000	
Add: Discount on issue of debentures (written off)	16,500	
Add: Loss on Sale of machine	<u>45,000</u>	12,82,500
Less: Income on Investment	(8,100)	
Profit on Sale of Investment	<u>(30,000)</u>	<u>(38,100)</u>
Funds from Operation		12,44,400
Add: Decrease in Current Assets or Increase in Current Liabilities		
Decrease in Stock	15,000	
Increase in Creditors	1,65,000	
Increase in Provision for doubtful debts	<u>15,000</u>	<u>1,95,000</u>
Less: Increase in Current Assets		14,39,400
Debtors	(1,05,000)	
Decrease in B/P	<u>(10,000)</u>	<u>(1,15,000)</u>
		13,24,400
Less: Tax Paid		<u>(15,000)</u>
Net Cash From Operating Activities		13,09,400
II Cash Flows from Investing Activities		
Sale of Machine	75,000	
Sale of Investment	1,50,000	
Income on investment	8,100	
Purchase of Fixed Assets (W.N.1)	(8,60,000)	

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Purchase of Investment (W.N.2)	<u>(2,70,000)</u>	
Cash used in Investing Activities		(8,96,900)
III. Cash flow from Financing Activities		
Issue of share capital (2,00,000 – 1,500*)	1,98,500	
Issue of debentures	1,50,000	
Less: Interest paid on debentures (36,000 – 35,000)	(1,000)	
Interim dividend paid	(2,25,000)	
Final dividend paid (1,80,000 – 10,000)	<u>(1,70,000)</u>	
Cash used in Financing Activities		<u>(47,500)</u>
Net Cash Flow (I + II + III)		3,65,000
Add: Cash and cash equivalents at the beginning of the period (1,80,000 – 30,000)		<u>1,50,000</u>
Cash and cash equivalents at the end of the period (5,40,000 – 25,000)		<u>5,15,000</u>

Working Notes:

1.

Fixed Assets A/c

	Rs.		Rs.
To Balance b/d	15,30,000	By Bank	75,000
To Bank (Purchase) (B.f.)	8,60,000	By P & L A/c (loss on sale)	45,000
		By Depreciation	2,10,000
		By Balance c/d	<u>20,60,000</u>
	<u>23,90,000</u>		<u>23,90,000</u>

2.

Investment A/c

	Rs.		Rs.
To Balance b/d	90,000	By Bank (W.N.4)	1,50,000
To Bank	2,70,000	By Balance c/d	2,40,000
To Profit & Loss (W.N.4)	<u>30,000</u>		
	<u>3,90,000</u>		<u>3,90,000</u>

* Underwriting commission is given in the form of shares only. It means that shares issued against cash will be of Rs.1,98,500 only.

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3. Provision for Tax A/c

	Rs.		Rs.
To Bank	15,000	By Balance b/d	30,000
To Balance c/d	<u>60,000</u>	By Profit & Loss A/c (Provision) (Bal.fig.)	<u>45,000</u>
	<u>75,000</u>		<u>75,000</u>

4. Cost of investment sold = (Rs.90,000+Rs.2,70,000) – Rs.2,40,000 = Rs.1,20,000.

Sales price = 1,20,000 x (100/80) = Rs.1,50,000

Profit on sale = Rs.1,50,000 – Rs.1,20,000 = Rs. 30,000

4. Profit and Loss Account

showing calculation of pre-incorporation and post-incorporation profit

Particulars	Basis	Pre Rs.	Post Rs.	Particulars	Basis	Pre Rs.	Post Rs.
To Commission	(1:6)	375	2,250	By Gross Profit	(1:6)	14,000	84,000
To Advertisement	(1:6)	750	4,500	By Bad Debts Realised	Actual	500	
To Discount	(1:6)	50	300				
To Directors Fees	Actual	-	9,000				
To Salaries	(1:3)	4,500	13,500				
To Depreciation	(1:3)	700	2,100				
To Insurance	(1:3)	150	450				
To Preliminary Expenses	Actual	-	700				
To Rent	(W.N.3)	60	630				
To Taxes	(W.N.3)	578	1,732				
To Bad Debts	(W.N.4)	386	864				
To Interest to vendor(upto 1- 10-2009)	(1:1)	1,000	1,000				
To Audit Fees	(1:3)	500	1,500				
To Capital reserve		5,451					
To Net profit			<u>45,474</u>				
		<u>14,500</u>	<u>84,000</u>			<u>14,500</u>	<u>84,000</u>

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Working Notes:

1. Calculation of Sales Ratio:

Let average monthly turnover during first four months (April, May, June and July) = 100

Average monthly turnover from September onwards = $100 \times 2 = 200$

Monthly turnover during August = 150% of 200 = 300

Turnover during pre-incorporation period = $100 \times 3 = 300$

Turnover during post-incorporation period (for July + August + September to March)
 $= 100 + 300 + (200 \times 7) = 1,800$

Sales Ratio = 300: 1,800 = 1:6

2. Calculation of Time ratio

April 2009 to June 2009 : July 2009 to March 2010

3 months : 9 months or 1:3

3. Break-up of Rent and Taxes:

Rent = $(20 \times 3) + (70 \times 9) = \text{Rs. } 690$

Taxes = $3,000 - 690 = 2,310$.

4. Allocation of Bad Debts:

Bad Debts from April to August = $1,250 - 350 = \text{Rs. } 900$

Sales ratio upto August i.e. April, May and June: (July and August)

$(100 + 100 + 100) : (100 + 300) = 3:4$

Rs. 900 allocated in the ratio of 3:4 is Rs. 386 and Rs. 514

Post-incorporation bad debts = $514 + 350 = \text{Rs. } 864$

and Pre-incorporation bad debts = Rs. 386

5. In the Books of Assured Ltd.

Journal Entries

		Rs.	Rs.
(i)	Share Final Call A/c Dr. To Share Capital A/c (Being the final call of Rs. 2.50 each on 80,000 equity shares made)	2,00,000	2,00,000

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(ii)	Bank A/c To Share Final Call A/c (Being the amount due on final call received)	Dr.	2,00,000	2,00,000
(iii)	General Reserves Securities Premium A/c To Bonus to Share holders A/c (Being the appropriation made to facilitate issue of fully paid up bonus shares in the ratio of one share for every two shares held)	Dr. Dr.	3,00,000 1,00,000	4,00,000
(iv)	Bonus to Shareholders A/c To Equity Share Capital A/c (Being the issuance of 40,000 fully paid up shares of Rs. 10 each by way of bonus)	Dr.	4,00,000	4,00,000

Balance Sheet (after bonus issue)

Liabilities	Amount Rs.	Assets	Amount Rs.
Authorised Share Capital 1,50,000 equity shares of Rs. 10 each	<u>15,00,000</u>	Sundry Assets	17,00,000
Issued and Subscribed 1,20,000 Equity Shares of Rs. 10 each fully paid up (Of the above, 40,000 equity shares are allotted as fully paid up by way of bonus shares)	12,00,000	Bank	2,00,000
Reserves and Surplus			
Capital Redemption Reserve	1,50,000		
Plant Revaluation Reserve	20,000		
Securities Premium	50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	<u>2,50,000</u>		
	<u>19,00,000</u>		<u>19,00,000</u>

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

6. Journal Entries in the Books of ABC Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.2007	Employees compensation expenses account Dr. To Employees stock option outstanding account (Being compensation expenses recognized in respect of the employees stock option i.e. 1,000 options granted to employees at a discount of Rs. 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)	48,000	48,000
	Profit and loss account Dr. To Employees compensation expenses account (Being expenses transferred to profit and loss account at the end of the year)	48,000	48,000
31.3.2007	Employees compensation expenses account Dr. To Employees stock option outstanding account (Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of Rs. 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)	48,000	48,000
	Profit and loss account Dr. To Employees compensation expenses account (Being expenses transferred to profit and loss account at the end of the year)	48,000	48,000
31.3.2009	Employees stock option outstanding account Dr. (W.N.1) To General Reserve account (W.N.1) (Being excess of employees compensation expenses transferred to general reserve account)	12,000	12,000

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30.6.2009	Bank A/c (600 x Rs.40)	Dr.	24,000	
	Employee stock option outstanding account (600 x Rs.120)	Dr.	72,000	
	To Equity share capital account (600 x Rs. 10)			6,000
	To Securities premium account (600 x Rs.150)			90,000
	(Being 600 employees stock option exercised at an exercise price of Rs. 40 each)			
01.10.2009	Employee stock option outstanding account	Dr.	12,000	
	To General reserve account			12,000
	(Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of 100 options at the end of exercise of option period)			

Working Note:

On 31.3.2009, ABC Ltd. will examine its actual forfeitures and make necessary adjustments, if any to reflect expenses for the number of options, that have actually vested. 700 employees stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

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

7. Journal Entries

	(Rs. in crores)	
Equity share buy back Account	25	
To Bank Account		25
(Being 100 lakhs equity shares bought back @ Rs.25 each)		
Equity Share Capital A/c	10	
Revenue Reserves A/c	15	
To Equity share buy back Account		25
(Being cancellation of bought back shares)		

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

13% Preference Share Capital A/c	Dr.	75	
To Preference Shareholders A/c			75
(Being amount due to preference shareholders on redemption of preference shares)			
Revenue Reserves A/c	Dr.	85	
To Capital Redemption Reserve A/c			85
(Being creation of capital redemption reserve as per requirements of section 77AA on buy back of equity shares and section 80 for redemption of preference shares out of profits)			
Preference Shareholders A/c	Dr.	75	
To Bank A/c			75
(Being amount paid to preference shareholders)			

Balance Sheet as at 1.4.2010

(After Buy-back and Redemption)

(Rs. in crores)

Liabilities	Amount	Asset	Amount
Authorised Capital	125	Fixed Assets	150
Issued, Subscribed, Called-up and paid up Capital:		Investments	120
Equity Shares of Rs. 10 each fully paid-up	40	Current Assets, Loans and Advances (295-100)	195
Reserves & Surplus:			
Capital Redemption Reserve	85		
Capital Reserves	50		
Revenue Reserves (250-15-85)	150		
Current Liabilities and Provisions	<u>140</u>		
	<u>465</u>		<u>465</u>

8. Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriters

	(Number of shares)				
	P	Q	R	S	Total
Gross Liability	30,000	30,000	20,000	20,000	1,00,000
Less: Marked applications (excluding firm underwriting)	(19,000)	(10,000)	(21,000)	(8,000)	(58,000)
Balance	11,000	20,000	(1,000)	12,000	42,000

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Less: Surplus of R allocated to P, Q and S in the ratio of 3:3:2	(375)	(375)	1,000	(250)	-
Balance	10,625	19,625	-	11,750	42,000
Less: Unmarked applications including firm underwriting	(5,700)	(5,700)	(3,800)	(3,800)	(19,000)
Net Liability	4,925	13,925	(3,800)	7,950	23,000
Less: Surplus of R allocated to P, Q and S in the ratio of 3:3:2	(1,425)	(1,425)	3,800	(950)	-
	3,500	12,500	-	7,000	23,000
Add: Firm underwriting	3,000	2,000	1,000	1,000	7,000
Total Liability	6,500	14,500	1,000	8,000	30,000

Calculation of underwriting commission:

As per law in force, underwriting commission is payable @ 5% of the issue price of shares.

Underwriting commission payable to P and Q = 5% of (Rs.15 × 30,000 shares)
= Rs.22,500.

Underwriting commission payable to R and S = 5% of (Rs.15 x 20,000 shares)
= Rs. 15,000.

Working Note:

Application received from public	70,000 shares
Add: Shares underwritten firm	7,000 shares
Total application	77,000 shares
Less: Marked applications	58,000 shares
Unmarked application including firm underwriting	19,000 shares

9.

Journal Entries

Date	Particulars	Dr. Rs.	Cr. Rs.
1.10.2009	10% Debentures A/c Dr.	10,00,000	
	Premium on Redemption of Debentures A/c Dr.	40,000	
	To Debenture holders A/c		10,40,000
	(Being transfer of amount due on redemption of 10% debentures – nominal value Rs.10,00,000 plus premium Rs.40,000)		

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

1.10.2009	Debenture holders A/c	Dr.	4,16,000	
	To 11% Preference Share Capital A/c			3,20,000
	To Securities Premium A/c			96,000
	(Being issue of 3,200 preference shares of Rs.100 each at a premium of Rs.30 each in exchange of 4,000 debentures)			
	Debentureholders A/c	Dr.	4,99,200	
	Discount on Issue of 11% Second Debentures A/c	Dr.	20,800	
	To 11% Second Debentures A/c			5,20,000
	(Issue of 5,200 11% Second Debentures of Rs.100 each at a discount of Rs.4 in exchange of 4,800 Debentures)			
	Debentureholders A/c	Dr.	1,24,800	
	To Bank A/c			1,24,800
	(Being the redemption of 1,200 debentures by cash)			

Working Notes:

(1) Redemption of debentures by issuing preference shares:

	Rs.
Claim of the holders of 4,000 debentures @ Rs.104	4,16,000
Number of preference shares to be issued $\left(\frac{\text{Rs.4,16,000}}{130} \right)$	3,200
Face value of preference shares @ Rs.100 each	3,20,000
Premium of preference shares @ Rs.30 each	96,000

(2) Redemption of debentures by issuing 11% Second Debentures:

	Rs.
Claim of the holders of 4,800 debentures @ Rs.104	4,99,200
Number of 11% Second Debentures to be issued $\left(\frac{\text{Rs.4,99,200}}{\text{Rs.96}} \right)$	5,200
Face value of 11% Second Debentures @ Rs.100 each	5,20,000
Discount on issue of debentures @ Rs.4 each	20,800

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(3) Claim of the holders

Rs.

Claim of the holders of 1,200 debentures @ Rs.104

1,24,800

(10,000 – 4,000 – 4,800 = 1,200)

10. Balance Sheet of M/s. Huge Ltd. after merger

Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed assets:	
Issued, subscribed and paid up share capital		Goodwill (W.N. 3C)	3,80,000
92,400 Equity shares of Rs. 10 each	9,24,000	Sundry fixed assets	13,50,000
(of which 22,400 shares were issued for consideration other than cash)		(9,50,000 + 4,00,000)	
Reserves and surplus :		Investment	2,50,000
Securities premium	6,80,960	Current assets, loans and advances:	
General reserve	3,50,000	Stock (1,20,000 + 50,000)	1,70,000
Profit and loss A/c 2,10,000		Debtors (75,000 + 80,000)	1,55,000
Add: Proposed dividend		Advance tax	
Cancelled <u>1,40,000</u>	3,50,000	(80,000 + 20,000)	1,00,000
Export profit reserve		Cash and bank balances	
(70,000 + 40,000)	1,10,000	(2,75,000 + 1,30,000 – 40)	4,04,960
Secured loans:		Miscellaneous	
12% Debenture	2,00,000	Expenditure to the extent not written off:	
(1,00,000 + 1,00,000)		Preliminary expenses	10,000
Current liabilities and provisions:		Amalgamation Adjustment A/c	40,000
Sundry creditors			
(40,000 + 45,000)	85,000		
Provision for tax			
(1,00,000 + 60,000)	<u>1,60,000</u>		
	<u>28,59,960</u>		<u>28,59,960</u>

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Working Notes:

1. Calculation of purchase consideration:

Equity shares of Big Ltd.	25,000 shares
Intrinsic value per share of Big Ltd. (W.N.2)	Rs. 36.2
Value of shares	Rs. 9,05,000
Intrinsic value per share of Huge Ltd. (W.N.2)	Rs. 40.4
No. of shares to be issued by Huge Ltd. Rs. 9,05,000/Rs.40.4 = 22,400.99 shares	
i.e 22,400 shares and cash for fraction i.e. .99 x Rs.40.4= Rs.40	
Accounting for Amalgamations and Corporate Restructuring	

Purchase consideration

i.	22,400 shares @ Rs. 40.4		
	Capital [Rs.10 / Share]	2,24,000	
	Premium [Rs. 30.4 / Share]	<u>6,80,960</u>	Rs. 9,04,960
ii.	Cash for fraction		Rs. <u>40</u>
iii.	Total purchase consideration payable		Rs. <u>9,05,000</u>

2. Intrinsic value per share:

	Huge Ltd.		Big Ltd	
	Rs.	Rs.	Rs.	Rs.
Assets				
i. Goodwill (W.N.3)	13,65,000		3,80,000	
ii. Sundry fixed assets	9,50,000		4,00,000	
iii. Investments	2,00,000		50,000	
iv. Stock	1,20,000		50,000	
v. Debtors	75,000		80,000	
vi. Advance tax	80,000		20,000	
vii. Cash and bank balance	<u>2,75,000</u>	30,65,000	<u>1,30,000</u>	11,10,000
Liabilities				
i. 12% Debentures	1,00,000		1,00,000	
ii. Sundry creditors	40,000		45,000	
iii. Provision for tax	<u>1,00,000</u>	<u>(2,40,000)</u>	<u>60,000</u>	<u>(2,05,000)</u>
Net assets		<u>28,25,000</u>		<u>9,05,000</u>
No. of shares		70,000		25,000
Intrinsic value per share (upto one decimal)		40.4		36.2

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3. Valuation of goodwill

A. Capital Employed

	Huge Ltd.		Big Ltd.	
	Rs.	Rs.	Rs.	Rs.
Assets				
i. Sundry fixed assets	9,50,000		4,00,000	
ii. Investment (Non-trade)	-		-	
iii. Stock	1,20,000		50,000	
iv. Debtors	75,000		80,000	
v. Advance tax	80,000		20,000	
vi. Cash and bank balance	<u>2,75,000</u>	15,00,000	<u>1,30,000</u>	6,80,000
Liabilities:				
i. 12% Debentures	1,00,000		1,00,000	
ii. Sundry creditors	40,000		45,000	
iii. Provision for tax	1,00,000	<u>(2,40,000)</u>	60,000	<u>(2,05,000)</u>
Capital employed		<u>12,60,000</u>		<u>4,75,000</u>

B. Average pre-tax profit:

Particulars	Huge Ltd. Rs.	Big Ltd. Rs.
2007	5,00,000	1,50,000
2008	6,50,000	2,10,000
2009	<u>5,75,000</u>	<u>1,80,000</u>
Total (a+b+c)	<u>17,25,000</u>	<u>5,40,000</u>
Simple Average [(a) ÷ 3]	5,75,000	1,80,000
Less: Non-trading income		
(2,00,000 @ 25%)	(50,000)	
(50,000 @ 18%)		<u>(9,000)</u>
Average profit	<u>5,25,000</u>	<u>1,71,000</u>

C. Computation of goodwill:

Rs.

Particulars	Huge Ltd.	Big Ltd.
Capitalised value of average profits		
$\left[\frac{5,25,000}{.20}, \frac{1,71,000}{.20} \right]$	26,25,000	8,55,000
Capital employed	<u>12,60,000</u>	<u>4,75,000</u>
Goodwill	<u>13,65,000</u>	<u>3,80,000</u>

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

11.

In the books of Rebuilt Ltd.

Journal Entries

	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity share capital A/c (Rs.50) Dr. To Equity share capital A/c (Rs. 2.50) To Reconstruction A/c (Being equity capital reduced to nominal value of Rs.2.50 each)	7,50,000	37,500 7,12,500
2.	Bank A/c Dr. To Equity share capital (Being 3 right shares against each share was issued and subscribed)	1,12,500	1,12,500
3.	7% Preference share capital A/c (Rs.50) Dr. Reconstruction A/c Dr. To 5% Preference share capital (Rs.10) To equity share capital (Rs.50) (Being 7% preference shares of Rs.50 each converted to 5% preference shares of Rs.10 each and also given to them 6 equity shares for every share held)	6,00,000 60,000	4,80,000 1,80,000
4.	Loan A/c Dr. To 5% Preference share capital A/c To Equity share capital A/c (Being loan to the extent of Rs.1,50,000 converted into share capital)	1,50,000	1,20,000 30,000
5.	Bank A/c Dr. To Equity share application money A/c (Being shares subscribed by the directors)	1,00,000	1,00,000
6.	Equity share application money A/c Dr. To Equity share capital A/c (Being application money transferred to capital A/c)	1,00,000	1,00,000

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7.	Loan A/c To Bank A/c (Being loan repaid)	Dr.	2,00,000	2,00,000
8.	Reconstruction A/c To Preliminary expenses A/c To Profit and loss A/c To Plant A/c To Trademarks and Goodwill A/c (Bal.fig.) (Being losses and assets written off to the extent required)	Dr.	6,52,500	11,000 4,40,000 35,000 1,66,500

**Balance sheet of Rebuilt Ltd. (and reduced)
as on 31.3.2010**

Liabilities	Rs.	Assets	Rs.
Authorised capital:		Fixed assets	
65,000 Preference shares of Rs. 10 each	6,50,000	Building at cost less depreciation	4,00,000
3,00,000 Equity shares of Rs. 2.50 each	<u>7,50,000</u>	Plant at cost less depreciation	2,33,000
Issued, subscribed and paid up:		Trademarks and Goodwill	1,51,500
1,80,000 equity shares of Rs. 2.5 each	4,60,000	Current assets:	
60,000, 5% Preference shares of Rs. 10 each	6,00,000	Stock	4,00,000
Loan	2,23,000	Debtors	3,28,000
Current liabilities and Provisions:		Bank (1,12,500 + 1,00,000 – 2,00,000)	12,500
Sundry creditors	2,07,000		
Other liabilities	<u>35,000</u>		
	<u>15,25,000</u>		<u>15,25,000</u>

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

12.

In the books of Sum up Ltd.

Liquidator's Statement of Account

Receipts	Rs.	Payment	Rs.
To Cash at Bank	50,000	By Liquidators' expenses	4,000
To Realisation of Assets:		By Liquidator's Commission @ 2% on Rs.3,50,000	7,000
Machinery	1,66,000	By Preferential creditors:	
Furniture	8,000	Income-tax payable	10,000
Stock	1,10,000	By Unsecured creditors	3,50,000
Less: Secured bank loan	<u>1,00,000</u>		
Debtors	2,30,000	By Preference shareholders:	
To Call money on 1,800 equity shares @ Rs. 15 per share (W.N.2)	27,000	1,000, 6% preference shares of Rs. 100 fully paid	1,00,000
		By Final Payment to equity shareholders:	
		2,000 equity shares of Rs. 100 each fully paid up @ Rs. 10 per share (W.N.2)	<u>20,000</u>
	<u>4,91,000</u>		<u>4,91,000</u>

Working Notes:

(1) Deficiency/Surplus to equity shareholders

	Rs.
Total of payment side excluding final payment to equity shareholders	4,71,000
Less: Total of receipt excluding call money	<u>4,64,000</u>
Deficit	(7,000)
Add: Notional call on 1,800 equity shares @ Rs. 25 each	<u>45,000</u>
Notional Surplus	<u>38,000</u>
Notional surplus per share Rs. $\frac{38,000}{3,800}$ = Rs.10.	

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(2) Call money of partly paid up shares and final payment of fully paid up shares:

So 1,800 partly paid up equity shareholders should be called @ Rs. 15 per share (i.e. Rs. 25 – Rs. 10).

2,000 fully paid up equity shareholders will get final payment @ Rs. 10 per share from the net proceeds of call on partly paid up shares

13. (a) Calculation of unexpired discounts or rebate on bills discounted

Date of Bills	Date of Maturity including three days of grace	No. of days after March 31	Amount Rs.	Rate of discount % p.a.	Total Annual Discount	Proportionate Discount for days after 31 st March
2010 Jan. 13	2010 May 16	46	7,50,000	12	90,000	$11,342 \left(90,000 \times \frac{46}{365} \right)$
Feb. 17	May 20	50	6,00,000	10	60,000	$8,219 \left(60,000 \times \frac{50}{365} \right)$
March 6	July 9	100	4,00,000	11	44,000	$12,055 \left(44,000 \times \frac{100}{365} \right)$
March 16	May 19	49	2,00,000	10	20,000	$2,685 \left(20,000 \times \frac{49}{365} \right)$
						34,301

So, unexpired discounts on 31st March, 2010, Rs.34,301.

The amount to be credited to Profit and Loss Account is ascertained from the Discount Account as follows:

Discount Account

2010		Rs.	2010		Rs.
Mar. 31	To Profit and Loss A/c (Bal. fig.)	1,41,700	Mar. 31	By Sundries	1,45,500
Mar. 31	To Rebate on Bills Discounted (on 31.3.10)	<u>34,301</u>		By Rebate on Bills Discounted (on 1.4.09)	<u>30,501</u>
		<u>1,76,001</u>			<u>1,76,001</u>

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Journal Entries

2010			Rs.	Rs.
March 31	Rebate on Bills Discounted Account	Dr.	30,501	
	To Discount Account			30,501
	(Being unexpired discount brought forward from the previous year, credited to Discount Account)			
March 31	Discount Account	Dr.	34,301	
	To Rebate on Bills Discounted Account			34,301
	(Being provision for unexpired discount required at the end of the year)			
March 31	Discount Account	Dr.	1,41,700	
	To Profit and Loss Account			1,41,700
	(Being discount earned for the year 2009-2010 transferred)			

Balance Sheet (An extract)

As at 31.3.2010

Liabilities	Rs.	Assets	Rs.
Other Liabilities		Advances	
Rebate on Bills Discounted	34,301	Bills Discounted	51,50,000

(b)

Sanchay Bank

Profit & Loss Account

For the year ended 31st March, 2010

Rs.(000)

		Schedule No.	Year ended 31.3.2010
I.	<i>Income</i>		
	Interest Earned	13	7,420
	Other Income	14	<u>82</u>
	Total		<u>7,502</u>
II.	<i>Expenditure</i>		
	Interest Expended	15	3,850

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	Operating Expenses	16	822
	Provisions & Contingencies		<u>200</u>
	Total		<u>4,872</u>
III.	<i>Profit/Loss</i>		
	Net Profit for the year		2,630
	Profit brought forward		<u>---</u>
	Total		<u>2,630</u>
IV.	<i>Appropriations:</i>		
	Transfer to Statutory Reserve (25% of Rs.2,630)		658
	Transfer to Other Reserves		1,557
	Transfer to Central Government		200
	Balance carried over to Balance Sheet		<u>215</u>
			<u>2,630</u>

Working Notes:

	Schedule 13 – Interest Earned	Rs.('000)
1.	Interest/discount on advances/bills (2,590+ 1,550 + 2,230 + 1,540 – 490)	7,420
2.	Interest on investments	--
3.	Interest on balances with RBI & other interbank funds	---
4.	Others	<u>---</u>
		<u>7,420</u>
	Schedule 14 – Other Income	Rs.('000)
1.	Commission, exchange and brokerage	82
2.	Profit /(Loss) on sale of investment	-
3.	Profit /(Loss) on revaluation of investment	-
4.	Profit /(Loss) on sale of land, building and other assets	-
5.	Income earned by way of dividends etc. from subsidiaries, companies and/or joint ventures abroad/in India	-
6.	Miscellaneous income	<u>-</u>
		<u>82</u>
	Schedule 15 – Interest Expended	Rs.('000)
1.	Interest on Deposits (3,170 + 680)	3,850
2.	Interest on Reserve Bank of India/inter-bank borrowings	<u>---</u>

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

3.	Others	—
		<u>3,850</u>
	Schedule 16 – Operating Expenses	Rs.('000)
I.	Payment to Employees	540
II.	Rent, Taxes & Lighting	180
III.	Printing and Stationery	29
IV.	Directors' Fee, Allowances and Expenses	30
V.	Auditors' Fee & Expenses	12
VI.	Postage, Telegrams & Telephones	14
VII.	Sundry Charges	<u>17</u>
		<u>822</u>

14.

Form B - RA

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA:

Revenue Account for the year ended 31st March, 2010

	Particulars	Schedule	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
1.	Premium earned (net)	1	60.00	
2.	Profit/Loss on sale/redemption of investments		-	
3.	Others		-	
4.	Interest, Dividend & Rent-Gross (10+5)		<u>15.00</u>	
	Total (A)		<u>75.00</u>	
1.	Claims Incurred (Net)	2	34.00	
2.	Commission	3	3.75	
3.	Operating expenses related to insurance business	4	<u>16.25</u>	
	Total (B)		<u>54.00</u>	
	Operating Profit/(Loss) from Marine Business (C) = (A-B)		21.00	
	Appropriations			
	Transfer to Shareholder's Account			
	Transfer to Catastrophe Reserve			

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	Transfer to other Reserves (to be specified)		_____	
	Total (C)		<u>21.00</u>	

Form B – PL

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA:

Profit & Loss Account for the year ended 31st March, 2010

	Particulars	Schedule	Current Year (Rs. In Lakhs)	Previous Year (Rs. In Lakhs)
1.	Operating Profit from marine insurance		21.00	
2.	Income from investments		-	
3.	Other Income		_____	
	Total (A)		<u>21.00</u>	
4.	Provision (other than taxation)			
	Diminution in the value of investment in shares 2.00			
	Less: increment in the value of investment in govt. securities <u>(5.00)</u>		(3.00)	
5.	Other expenses		_____	
	Total (B)		<u>(3.00)</u>	
	Profit before tax A-B [i.e. 21 – (-3)]		24.00	
	Less: Provision for taxation		<u>(13.65)</u>	
	Total		10.35	
	Appropriations		Nil	
	Balance of profit/loss brought forward from last year		<u>10.00</u>	
	Balance carried forward to Balance Sheet		<u>20.35</u>	

Schedule 1: Premium Earned (Net)

Particulars	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
Premium from direct business	50.00	
Add: Premium on re-insurance accepted	<u>5.00</u>	

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	55.00	
Less: Premium on re-insurance ceded	<u>10.00</u>	
Net Premium	45.00	
Adjustment for change in reserve for unexpired risk [(opening) 60 – (Closing) 45]	<u>15.00</u>	
	<u>60.00</u>	

Schedule 2: Claims incurred (Net)

Particulars	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
Claims paid		
Direct	25.00	
Add: Reinsurance accepted	<u>4.00</u>	
	29.00	
Less: Reinsurance ceded	<u>5.00</u>	
Net Claims paid	24.00	
Add: Claims outstanding at the end of the year	<u>30.00</u>	
	54.00	
Less: Claims outstanding at the beginning of the year	<u>20.00</u>	
Total claims incurred	<u>34.00</u>	

Schedule 3: Commission

Particulars	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
Commission paid		
Direct	5.00	
Add: Re-insurance accepted	<u>1.25</u>	
	6.25	
Less: Commission on reinsurance ceded	<u>2.50</u>	
Net Commission	<u>3.75</u>	

Schedule 4: Operating Expenses

Particulars	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
Expenses of Management	5.00	
Bad Debts	10.00	

PAPER – 1 : ADVANCED ACCOUNTING

Other expenses	<u>1.25</u>	
	<u>16.25</u>	

Working Note:

Provision for income tax:	Rs. in lakhs
Income (excluding revaluation)	18.00
Add: Tax deducted at source	<u>3.00</u>
	<u>21.00</u>
Provision @ 65% of Rs. 21.00 lakhs	<u>13.65</u>

15. (a) Electric Supply Co.

Journal Entries

		(Rs. in Lakhs)
Mains A/c	Dr.	8,68,825
Replacement a/c	Dr.	11,21,175
To Bank A/c		19,90,000
(Being the amount paid for Replacement of assets allocated between capital and revenue)		
Mains A/c	Dr.	13,800
To Replacement A/c		13,800
(Being the cost of material of old Main used in new Main)		
Bank A/c	Dr.	25,200
To Replacement A/c		25,200
(Being the amount realised from the sale of material of old Main)		
Revenue A/c	Dr.	10,82,175
To Replacement A/c		10,82,175
(Being the balance of replacement A/c transferred to Revenue A/c)		

Mains Account

	Rs.		Rs.
To Balance b/d	9,90,000	By Balance c/d	18,72,625
To Bank	8,68,825		
To Replacement A/c	<u>13,800</u>		
	<u>18,72,625</u>		<u>18,72,625</u>

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Replacement Account

	Rs.		Rs.
To Bank A/c	11,21,175	By Bank A/c	25,200
		By Mains A/c	13,800
		By Revenue A/c	<u>10,82,175</u>
	<u>11,21,175</u>		<u>11,21,175</u>

Working Notes:

(1) Calculation of Current Replacement Cost

	Material		Labour		Total
		Rs.		Rs.	Rs.
Original cost	70%	6,93,000	30%	2,97,000	9,90,000
Add: Increase	12½%	86,625	15%	44,550	1,31,175
Current Replacement Cost		7,79,625		3,41,550	11,21,175

(2) Calculation of Charge to Revenue (or Net Cost of Replacement) Rs.

Current Replacement Cost	11,21,175
Less: Re-use of material	13,800
Sale of Material	<u>25,200</u>
Charge to Revenue	10,82,175

(3) Amount to be capitalised: Rs.

Cost of new Mains	19,90,000
Less: Estimated replacement cost	11,21,175
Amount to be capitalised	8,68,825

(b) (a) Calculation of Clear Profit

	Rs.	Rs.
Income derived from:		
Sale of energy		12,40,000
Meter rents		90,000
Transfer fees		1,000
Contingency reserve investment income		5,000
Interest on bank deposits		600
		<u>13,36,600</u>

PAPER – 1 : ADVANCED ACCOUNTING

Less: Expenses:		
Cost of generation	6,05,000	
Distribution and selling expenses	65,000	
Rent, rates and taxes	18,000	
Interest on loan from Electricity Board	9,000	
Interest on security deposits	1,000	
Audit fees	5,000	
Management expenses	90,000	
Depreciation	60,000	
Contribution to Provident Fund	32,000	8,85,000
		4,51,600
<i>Less: Special Appropriations:</i>		
Intangible assets written off	3,000	
Transfer to Contingency Reserve	8,000	11,000
Clear Profit		4,40,600

(b) Calculation of Capital Base

	Rs.	Rs.
Original Cost of Fixed Assets	27,00,000	
Less: Contribution from consumers	2,00,000	25,00,000
Cost of intangible assets		50,000
Contingency reserve investments		50,000
Working Capital [$\frac{1}{2}$ (40,000 + 60,000) + $\frac{1}{2}$ (30,000 + 50,000)]		90,000
		26,90,000
Less: Depreciation written off (5,00,000+60,000)	5,60,000	
Intangible assets written off (40,000+3,000)	43,000	
Loan from Electricity Board	90,000	
Tariffs & Dividend Control Reserve	80,000	
Security Deposits of Customers	20,000	
Development Reserve	1,20,000	
Amount carried forward for distribution to consumers	15,000	9,28,000
Capital Base		17,62,000

PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

(c) Calculation of Reasonable Return

	Rs.
Bank rate 8% + 2% = 10% on Capital Base of Rs.17,62,000.	1,76,200
Add: Interest income on bank deposits	600
½% on Bank loan from Electricity Board	450
½% on development reserve	600
Reasonable Return	1,77,850

(d) Disposal of surplus

	Rs.	Rs.
Clear Profit	4,40,600	
Less: Reasonable Return	<u>1,77,850</u>	
Excess	2,62,750	
(Subject to the limit of 20% of reasonable return)		
i.e. $\frac{20}{100} \times 1,77,850 = \text{Rs.} 35,570$		
Surplus		35,570
Excess Rs.2,27,180 (i.e. 2,62,750 – 35,570) is transferred to consumers benefit reserve.		
(i) Amount at disposal of company (Being $\frac{1}{3}$ of surplus or 5% of Reasonable Return whichever is less)		
5% of Reasonable Return	8,892	
$\frac{1}{3}$ of Surplus	11,856	8,892
(ii) Amount transferred to Tariffs & Dividend Control Reserve $\left[\frac{1}{2} \times (35,570 - 8,892) \right]$		13,339
(iii) Amount transferred to Consumers Benefit Reserve		13,339
Total		35,570

PAPER – 1 : ADVANCED ACCOUNTING

(e) Statement of disposal

	Rs.
Amount available at the disposal of the company = Rs.1,77,850 + Rs.8,892	1,86,742
Amount transferred to Tariffs & Dividend Control Reserve	13,339
Amount transferred to Consumers Rebate Reserve = Rs.2,27,180 + Rs.13,339	<u>2,40,519</u>
	<u>4,40,600</u>

16. (a) Statement showing calculation of average due date

Instalments	Due Dates	Years since 1 January 2006
1	1 January 2008	2
2	1 January 2009	3
3	1 January 2010	4
4	1 January 2011	5
5	1 January 2012	<u>6</u>
		<u>20</u>

$$\begin{aligned} \text{Average Due Date} &= \text{Date of Loan} + \frac{20}{5} \\ &= 1 \text{ January, 2006} + 4 \text{ years} = 1 \text{ January, 2010} \end{aligned}$$

$$\text{Interest} = \frac{20,000 \times 12 \times 4}{100} = \text{Rs. 9,600}$$

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

(b)

**In the books of Me
You in Account Current with Me
as on 30 June, 2010**

Date 2010	Particulars	Debit Amount Rs.	Credit Amount Rs.	Dr. or Cr.	Balance Rs.	Days	Debit Products Rs.	Credit Products Rs.
Jan. 1	By Balance b/d		3,010.00	Cr.	3,010.00	7		21,070
Jan. 7	By Purchases		4,430.00	Cr.	7,440.00	40		2,97,600
Feb. 16	To Sales	6,480.00		Cr.	960.00	2		1,920
Feb. 18	By Returns Inward		560.00	Cr.	1,520.00	34		51,680
Mar. 24	To Sales	3,560.00		Dr.	2,040.00	29	59,160	
Apr. 22	By Purchases		1,500.00	Dr.	540.00	7	3,780	
Apr. 29	By Cash		2,500.00	Cr.	1,960.00	18		35,280
May 27	By Purchases		2,710.00	Cr.	4,670.00	36		1,68,120
June 22	To Sales	2,280.00		Cr.	2,390.00	8		19,120
June 30	Balance of products						5,31,850	
June 30	By Interest on balance of Products: $\left(\frac{5,31,850 \times 10}{100 \times 365} \right)$		145.71	Cr.	2,535.71			
June 30	To Balance c/d	2,535.71						
		14,855.71	14,855.71					
July 1	By Balance b/d		2,535.71	Cr.	2,535.71			

PAPER – 1 : ADVANCED ACCOUNTING

(c) Total Debtors Account

Date 2010	Particulars	Amount Rs.	Date 2010	Particulars	Amount Rs.
Apr. 1	To Balance b/d (15,000 + 21,000 + 18,000 +3,56,000)	4,10,000	Apr. 1	By Balance b/d — Advanced by P	20,000
30.	To Sales (credit) A/c (5,55,000 – 1,14,000)	4,41,000		By Cash A/c (W.N.1)	3,93,000
	To Bills Receivable A/c — Dishonoured of X	9,000	30.	By Discount Allowed A/c (W.N.2)	9,500
	To Cash A/c — Noting Charges	150		By Bad Debts A/c	16,500
	To Balance c/d— D	18,000		By (21,000 – 4,500)	
				By Returns Inward A/c — by X	6,000
				By Bill Receivable A/c — by X	9,000
				By Transfer to Total Creditors A/c — Z's balance	18,000
				By Balance c/d	
				X - 9,150	
				B – 18,000	
				Others - <u>3,79,000</u>	<u>4,06,150</u>
		<u>8,78,150</u>			<u>8,78,150</u>
May 1	To Balance b/d	4,06,150	May 1	By Balance b/d -D	18,000

Working Notes:

1.	Amount received from Customers	Rs.
	From Y	4,500
	D (advance)	18,000
Add:	From other customers before April 1	2,73,000
	From sales during the month of April	<u>97,500</u>
		<u>3,93,000</u>

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

2. Discount Allowed @ $2\frac{1}{2}\%$ on gross amount

$$\text{Then net value in \%} = 97\frac{1}{2} (100 - 2\frac{1}{2})$$

So, discount on Rs. 3,70,500 (i.e. 2,73,000 + 97,500) will be

$$= \text{Rs. } 3,70,500 \times \frac{2\frac{1}{2}}{97\frac{1}{2}}$$

$$= \text{Rs. } 9,500$$

17.

Balance Sheet

as at 1st January 2009

Liabilities	Rs.	Assets	Rs.
Capital fund (bal. fig.)	54,250	Investment in 4% Bonds	15,000
Creditors	10,000	Stock	6,000
Subscription received in advance for 2009	3,000	Outstanding Subscriptions	
Outstanding Salaries	7,000	for 2007	19,000
		for 2008	30,000
		Balance at Bank	<u>4,250</u>
	<u>74,250</u>		<u>74,250</u>

Balance Sheet

as at 31st December 2009

Liabilities	Rs.	Assets	Rs.
Capital fund :		Investments 4% Bonds	25,000
on 1.1.2009 54,250		Accrued Interest	550
Surplus for 2009 <u>33,000</u>	87,250	Stock (W.N.1)	25,000
Creditors for provisions	5,000	Debtors of provisions	4,000
Subscription received in Advance for 2010	4,000	Outstanding subscriptions	
Outstanding Salaries	12,000	2007	1,000
Outstanding Rent	2,000	2008	10,000
		2009	27,000
		Balance at Bank	<u>17,700</u>
	<u>1,10,250</u>		<u>1,10,250</u>

PAPER – 1 : ADVANCED ACCOUNTING

**Receipts and Payments Account
for the year ended 31st December 2009**

Receipts	Rs.	Payments	Rs.
To Balance in hand (bal. fig.)	4,250	By Salaries	40,000
To Subscriptions:		By Investment purchased	10,000
2007	18,000	By Purchase of provisions	9,000
2008	17,000	By Creditors (W.N.3)	1,05,000
2009 (W.N.4)	40,000	By Balance in hand	17,700
To Cash Sales	12,000		
To Interest	450		
To Debtors (W.N.2)	86,000		
To Subscriptions for 2010	<u>4,000</u>		
	<u>1,81,700</u>		<u>1,81,700</u>

**Income and Expenditure Account
for the year ended 31st December 2009**

Expenditures	Rs.	Incomes	Rs.
To Salaries	45,000	By Subscriptions for 2009	70,000
To Rent	2,000	By Interest 450	
To Bad Debts (W.N.4) (Subscriptions for 2008)	3,000	Add: Accrued int. <u>550</u>	1,000
To Excess of income over expenditure	<u>33,000</u>	By Profit on Provisions	12,000
	<u>83,000</u>		<u>83,000</u>

Working Notes:

1. Provisions Account

	Rs.		Rs.
To Opening Stock	6,000	By Sales- Credit 90,000	
To Purchases	1,09,000	Cash <u>12,000</u>	1,02,000
To Profit	<u>12,000</u>	By Closing Stock	<u>25,000</u>
	<u>1,27,000</u>		<u>1,27,000</u>

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

2. Debtors Account

	Rs.		Rs.
To Sale of Provisions	90,000	By Cash (Bal.fig.)	86,000
	<u> </u>	By Balance c/d	<u>4,000</u>
	<u>90,000</u>		<u>90,000</u>

3. Creditors Account

	Rs.		Rs.
To Cash (Bal.fig.)	1,05,000	By Balance b/d	10,000
To Balance c/d	<u>5,000</u>	By Provisions	<u>1,00,000</u>
	<u>1,10,000</u>		<u>1,10,000</u>

4. Subscription Account

	2007 Rs.	2008 Rs.	2009 Rs.		2007 Rs.	2008 Rs.	2009 Rs.
To Balance b/d	19,000	30,000	-	By Balance b/d	-	-	3,000
To Income and Expenditure A/c	-	-	70,000	By Cash A/c	18,000	17,000	40,000*
	<u> </u>	<u> </u>	<u> </u>	By Bad Debts A/c	-	3,000	-
	<u>19,000</u>	<u>30,000</u>	<u>70,000</u>	By Balance c/d	<u>1,000*</u>	<u>10,000</u>	<u>27,000</u>
					<u>19,000</u>	<u>30,000</u>	<u>70,000</u>

* means balancing figure.

**18. Trading and Profit and Loss Account of Shri Ram
for the year ended 31st December, 2009**

		Rs.		Rs.
To Opening Stock		8,000	By Sales	73,050
To Purchases	45,600		By Closing stock	7,000
Less : For advertising	<u>900</u>	44,700		
To Freight inwards		3,000		
To Gross profit c/d		<u>24,350</u>		
		<u>80,050</u>		<u>80,050</u>
To Sundry expenses		14,200	By Gross profit b/d	24,350
To Advertisement		900	By Interest on investment	2
To Discount allowed –			$\left(\text{Rs.} 100 \times \frac{4}{100} \times \frac{1}{2} \right)$	

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Debtors	1,500		By Discount received	800
Bills Receivable	<u>125</u>	1,625	By Miscellaneous income	500
To Depreciation on furniture		650		
To Provision for doubtful debts		486		
To Net Profit		<u>7,791</u>		<u> </u>
		<u>25,652</u>		<u>25,652</u>

Balance Sheet as on 31st December, 2009

<i>Liabilities</i>		<i>Amount Rs.</i>	<i>Assets</i>		<i>Amount Rs.</i>
Capital as on 1st January, 2009	18,800		Furniture	6,000	
Less : Drawings	<u>7,904</u>		Additions during the year	<u>1,000</u>	
	10,896			7,000	
Add : Net Profit	<u>7,791</u>	18,687	Less : Depreciation	<u>650</u>	6,350
Sundry creditors		15,000	Investment		96
Outstanding expenses		1,800	Interest accrued		2
			Closing Stock		7,000
			Sundry debtors	19,450	
			Less : Provision for doubtful debts	<u>486</u>	18,964
			Bills receivable		1,750
			Cash in hand and at bank		625
			Prepaid expenses		<u>700</u>
		<u>35,487</u>			<u>35,487</u>

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

Working Notes :

(1) Capital on 1st January, 2009

Balance Sheet as on 1st January, 2009

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital (Balancing figure)	18,800	Furniture (w.d.v.)	6,000
Creditors	11,000	Stock at cost	8,000
Outstanding expenses	2,000	Debtors	16,000
		Cash in hand and at bank	1,200
		Prepaid expenses	<u>600</u>
	<u>31,800</u>		<u>31,800</u>

(2) Purchases made during the year

Creditors Account

	<i>Rs.</i>		<i>Rs.</i>
To Cash and bank A/c	39,200	By Balance b/d	11,000
To Discount received A/c	800	By Debtors A/c	400
To Bills Receivable A/c	2,000	By Purchases A/c (Bal.fig.)	45,600
To Balance c/d	<u>15,000</u>		<u> </u>
	<u>57,000</u>		<u>57,000</u>

(3) Sales made during the year

		<i>Rs.</i>
Opening stock		8,000
Purchases	45,600	
Less : For advertising	900	44,700
Freight inwards		3,000
		<u>55,700</u>
Less : Closing stock		7,000
Cost of goods sold		48,700
Add : Gross profit (@ 50% on cost)		24,350
		<u>73,050</u>

PAPER – 1 : ADVANCED ACCOUNTING

(4) Debtors on 31.12.2009

Debtors Account

	Rs.		Rs.
To Balance b/d	16,000	By Cash and bank A/c	58,500
To Sales A/c	73,050	By Discount allowed A/c	1,500
To Creditors A/c (bill dishonoured)	400	By Bills receivable A/c	10,000
		By Balance c/d (Bal.fig.)	19,450
	89,450		89,450

(5) Additional drawings by Shri Ram

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	1,200	By Freight inwards A/c	3,000
To Sundry debtors A/c	58,500	By Furniture A/c	1,000
To Bills Receivable A/c	6,125	By Investment A/c	96
To Miscellaneous income A/c	500	By Expenses A/c	14,500
		By Creditors A/c	39,200
		By Drawings A/c (Rs.7,000+ Rs.904)	7,904
		By Balance c/d	625
	66,325		66,325

(6) Amount of expenses debited to Profit and Loss A/c

Expenses Account

	Rs.		Rs.
To Prepaid expenses A/c (on 1.1.2009)	600	By Outstanding expenses A/c (on 1.1.2009)	2,000
To Bank A/c	14,500	By Profit and Loss A/c (Balancing figure)	14,200
To Outstanding expenses A/c (on 31.12.2009)	1,800	By Prepaid expenses A/c (on 31.12.2009)	700
	16,900		16,900

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2010

(7) Bills Receivable on 31.12.2009

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	10,000	By Creditors A/c	2,000
		By Bank A/c	6,125
		By Discount on bills receivable A/c	125
	<u> </u>	By Balance c/d (Bal.fig.)	<u>1,750</u>
	<u>10,000</u>		<u>10,000</u>

Note: As regards investment, it has been assumed that investment purchased for Rs. 96 was of the face value Rs. 100.

19. (a) Hire-Purchase Trading Account for the year ended 31.03.2010

	Rs.		Rs.
To H.P. Stock (Opening)	3,60,000	By H.P. Stock Reserve (Opening)	1,20,000
To Installment due (Opening)	30,000	By Bank (Cash Collected)	6,20,000
To Goods Sold on H.P.	8,40,000	By Goods Sold on H.P. (Loading)	2,80,000
To H.P. Stock Reserve (Closing)	1,80,000	By H.P. Stock (Closing)	5,40,000
To Profit & Loss A/c	2,20,000	By Installments due	70,000
	<u>16,30,000</u>		<u>16,30,000</u>

Working Notes:

(i) Calculation of Opening and Closing H.P. Stock

$$\text{Opening Stock} = \frac{\text{H.P. Stock Reserve} \times 150}{50}$$

$$= \frac{1,20,000 \times 150}{50}$$

$$= \text{Rs. } 3,60,000$$

$$\text{Closing Stock} = \frac{\text{H.P. Stock Reserve} \times 150}{50}$$

$$= \frac{1,80,000 \times 150}{50}$$

$$= \text{Rs. } 5,40,000$$

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(ii) Calculation of installments collected:

	Rs.
H.P. Stock on 01.04.2009	3,60,000
Installments due on 01.04.2009	30,000
Goods sold on H.P. basis	8,40,000
	12,30,000
Less: H.P. Stock on 31.03.2010	(5,40,000)
	6,90,000
Less: Installment due on 31.03.2010	(70,000)
Installment collected during the year	6,20,000

(b)

In the books of Anshu

10% Non-Convertible Debentures Account

	Particulars	Face Value Rs.	Interest Rs.	Cost Rs.		Particulars	Face Value Rs.	Interest Rs.	Cost Rs.
April 1	To Balance b/d	2,00,000	5,000	1,80,000	June 30	By Bank		25,000	
June 15	To Bank	3,00,000	13,750	2,88,000	Sept. 15	By Bank	3,00,000	6,250	3,00,000
Sept. 15	To P&L A/c			24,000	Dec. 31	By Bank		20,000	
Dec. 15	To Bank	2,00,000	9,167	1,88,333	Feb. 15	By Bank	2,00,000	2,500	2,01,500
Feb. 15	To P&L A/c			9,500	Mar. 31	By balance c/d	2,00,000	5,000	1,88,333
Mar.31	To P&L A/c (Bal. fig.)		30,833						
		7,00,000	58,750	6,89,833			7,00,000	58,750	6,89,833

Working Notes :

(i) Profit/Loss on Sale of NCD

Sold on 15.09.2009	Rs.
Selling price (3,000 x 100)	3,00,000
Less: Cost of purchases	
2,000 x 90 (opening)	1,80,000
1,000 x 96 (purchases)	<u>96,000</u>
Profit	<u>24,000</u>

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Sold on 15.02.2010

	Rs.
Selling price (2,000 x 102)	2,04,000
Less: Interest included	<u>2,500</u>
	2,01,500
Less: Cost of purchases (2,000 x 96)	<u>1,92,000</u>
Profit	<u>9,500</u>

(ii) As the disinvestment is done on FIFO basis, NCDs purchased on 15.12.2009 remained in stock on 31.03.2010 at a cost of Rs. 1,88,333

(iii) **Interest calculation on various dates :**

Rs.

(a) On 1.4.09:

$$2,00,000 \times 10\% \times \frac{3}{12} \rightarrow (1.1.09 - 31.3.09) = 5,000$$

(b) On 15.6.09:

$$3,00,000 \times 10\% \times \frac{5.5}{12} \rightarrow (1.1.09 - 15.6.09) = 13,750$$

(c) On 30.6.09:

$$5,00,000 \times 10\% \times \frac{6}{12} \rightarrow (1.1.09 - 30.6.09) = 25,000$$

(d) On 15.9.09:

$$3,00,000 \times 10\% \times \frac{2.5}{12} \rightarrow (1.7.09 - 15.9.09) = 6,250$$

(e) On 15.12.09

$$2,00,000 \times 10\% \times \frac{5.5}{12} \rightarrow (1.7.09 - 15.9.09) = 9,167$$

(f) On 31.12.09:

$$4,00,000 \times 10\% \times \frac{6}{12} \rightarrow (1.7.09 - 31.12.09) = 20,000$$

(g) On 15.2.2010:

$$2,00,000 \times 10\% \times \frac{1.5}{12} \rightarrow (1.1.10 - 15.2.10) = 2,500$$

(h) On 31.3.2010:

$$2,00,000 \times 10\% \times \frac{3}{12} \rightarrow (1.1.10 - 31.3.10) = 5,000$$

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**20. (a) Trading and Profit and Loss Account
for the year ending on 31st March 2010**

Particulars	H.O. (Rs.)	Branch (Rs.)	Particulars	H.O. (Rs.)	Branch (Rs.)
To Purchases	4,00,000		By Sales	3,20,000	1,00,000
To Packing material consumed (6,000 – 1,000)	5,000		By Goods sent to Branch A/c (in transit Rs.5,400)	1,13,400	
To Goods from H.O.		1,08,000	By Stock damaged and shortage		1,540
To Gross Profit c/d [Working Notes (i) & (ii)]	76,600	10,000	By Closing Stock (includes unpacked goods of Rs.5,000) (Bal.fig.)	48,200	16,460
	4,81,600	1,18,000		4,81,600	1,18,000
To Salaries and Wages	20,000	3,000	By Gross Profit b/d	76,600	10,000
To Selling Expenses	16,000	800			
To Stock Reserve (Unrealised Profit)	2,350				
To Stock damaged and shortage	770	770			
To Net Profit t/f to Capital A/c	37,480	5,430			
	76,600	10,000		76,600	10,000

Balance Sheet as at 31st March 2010

Liabilities		Rs.	Assets		Rs.
Capital	40,000	72,910	Stock-in-trade:		49,200
Add: Net Profit	<u>42,910</u>		H.O.: Packed	43,200	
	82,910		Unpacked	5,000	
Less: Drawings	<u>10,000</u>		Packing Material	<u>1,000</u>	
Sundry Creditors:			Branch: In hand	16,460	
H.O.	26,600	31,600	In transit	<u>5,400</u>	
Branch	<u>5,000</u>			21,860	
			Less: Unrealised Profit	<u>2,350</u>	19,510

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		Sundry Debtors: H.O.	28,000	
		Branch	<u>4,200</u>	32,200
		Cash at Bank		2,000
		Cash-in-transit		1,600
	1,04,510			1,04,510

Working Notes:

Rs.

- | | | |
|-------|---|---------------|
| (i) | Gross Profit made by Head Office (20% of Sales of Rs. 3,20,000) | 64,000 |
| | 10/90 of Goods sent to Branch [(Rs. 1,08,000 + Rs. 5,400) x 1/9] | <u>12,600</u> |
| | (Since Invoice Price is 90% of normal selling price) | <u>76,600</u> |
| (ii) | The Gross Profit made by branch is 10% of sales (10% of Rs. 1,00,000) | 10,000 |
| (iii) | The amount to be written off at invoice value at branch is: | |
| | Amount written off on damaged goods | 1,090 |
| | Invoice price of deficit in stock (Rs. 500 x 90/100) | <u>450</u> |
| | | <u>1,540</u> |
| (iv) | Value of damaged goods included in Closing Stock | |
| | A. Selling Price of Goods Damaged | <u>2,000</u> |
| | B. Invoice Price of Goods Damaged (Rs. 2,000 x 90/100) | 1,800 |
| | C. Amount already written off | <u>1,090</u> |
| | D. Amount still included in Closing Stock (B – C) | <u>710</u> |
| (v) | Calculation of Stock Reserve Required | |
| | A. Stock (as per Trading Account) | 16,460 |
| | B. Less: Value of damaged goods included | <u>710</u> |
| | C. Value of undamaged in hand (A – B) | 15,750 |
| | D. Add: Goods-in-transit | <u>5,400</u> |
| | E. Value to Total Goods (C + D) | <u>21,150</u> |
| | F. Stock Reserve required (Rs. 21,150 x 10/90) | 2,350 |

(b)

Departmental Trading Account

For the year ending 31st December, 2009

	A	B	C		A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Opening stock	24,000	36,000	12,000	By Sales	1,72,500	1,59,400	74,600

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To	Purchases	1,46,000	1,24,000	48,000	By	Closing stock	30,000	40,000	10,000
To	Gross Profit	<u>32,500</u>	<u>39,400</u>	<u>24,600</u>			<u> </u>	<u> </u>	<u> </u>
		<u>2,02,500</u>	<u>1,99,400</u>	<u>84,600</u>			<u>2,02,500</u>	<u>1,99,400</u>	<u>84,600</u>

Working Notes:

	Departments		
	A Rs.	B Rs.	C Rs.
(1) Ascertainment of cost of sales:			
Sales at actual price	1,72,500	1,59,400	74,600
Less: Discounted sales price	(7,500)	(2,400)	(600)
	1,65,000	1,57,000	74,000
Add: Sales at normal selling price	10,000	3,000	1,000
Total sales at normal prices	1,75,000	1,60,000	75,000
Profit on normal prices	20%	25%	33 $\frac{1}{3}$ %
Cost of goods sold as a % of sales	80%	75%	66 $\frac{2}{3}$ %
Value of cost of goods sold	1,40,000	1,20,000	50,000

(2) Ascertainment of closing stocks:

	Departments		
	A Rs.	B Rs.	C Rs.
Opening stocks	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
	1,70,000	1,60,000	60,000
Less: Cost of goods sold	1,40,000	1,20,000	50,000
Closing stocks	30,000	40,000	10,000

21. Computation of the amount of claim for the loss of profit

	Rs.
(i) Ascertainment of turnover:	
Turnover from 15 th October, 2008 to 31 st March, 2009	2,40,000

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Add: 20% expected increase	<u>48,000</u>
	2,88,000
Less: Actual turnover from 15 th October, 2009 to 31 st March, 2010	<u>1,20,000</u>
Reduction in turnover due to fire	<u>1,68,000</u>
Gross profit on reduction in turnover @ 35% (see working note)	58,800

(ii) Claim amount:

Amount of claim without application of average clause Rs. 58,800

Application of average clause

$$\begin{aligned}
 &= \frac{\text{Amount of Policy}}{\text{G.P. on Turnover}} \times \text{Amount of claim} \\
 &= \frac{1,50,000}{2,01,600} \times 58,800 \\
 &= \text{Rs. 43,750}
 \end{aligned}$$

Therefore, amount of claim = Rs. 43,750

Working Notes:

(i)

Rate of Gross Profit for last financial year:	Rs.
Net Profit	90,000
Add: Insured standing charges	<u>67,500</u>
	<u>1,57,500</u>
Turnover for the last financial year	4,50,000

$$\begin{aligned}
 \text{Rate of Gross Profit} &= \frac{1,57,000}{4,50,000} \times 100 \\
 &= 35\%
 \end{aligned}$$

(ii)

Adjusted Annual Turnover:	Rs.
Turnover from 15 th October, 2008 to 14 th October, 2009	4,80,000
Add: 20% expected increase	<u>96,000</u>
	<u>5,76,000</u>
Gross Profit @ 35% on incremental turnover	2,01,600

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**22. Profit & Loss Appropriation Account
for the year ended 31st March, 2010**

	For the period			For the period	
	1.4.09 to 31.8.09	1.9.09 to 31.3.10		1.4.09 to 31.8.09	1.9.09 to 31.3.10
	Rs.	Rs.		Rs.	Rs.
To Interest on capital	7,500	17,500	By Net Profit	75,000	1, 05,000
To Depreciation	6,000	12,500			
To Z's Commission	5,591	-			
To Transfer to current A/c					
X	22,364	-			
Y	22,363	40,000			
Z	11,182	20,000			
A	-	15,000			
	75,000	1,05,000		75,000	1,05,000

Partners' Current Account

	X Rs.	Y Rs.	Z Rs.	A Rs.		X Rs.	Y Rs.	Z Rs.	A Rs.
From 1.4.09 to 31.8.09									
To X	-	16,000	8,000		By X's capital A/c (Transfer)	80,000	-	-	
To Cash	50,000	-	-	-	By Interest on Capital	3,000	3,000	1,500	
To A's Capital A/c	60,000	-	-	-	By commission	-	-	5,591	
To A's Current A/c	19,364				By Y	16,000			
To Balance c/d		9,363	10,273		By Z	8,000			
					By P/L Appropriation Account	22,364	22,363	11,182	
	<u>1,29,364</u>	<u>25,363</u>	<u>18,273</u>			<u>1,29,364</u>	<u>25,363</u>	<u>18,273</u>	

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From 1.9.09 to 31.3.10									
To	Y	-	-	8,000	By	Balance b/d	9,363	10,273	
To	Z			4,000	By	X's Current A/c	-	-	19,364
To	Balance c/d	66,696	38,940	25,864	By	Interest on Capital	9,333	4,667	3,500
					By	A	8,000	4,000	-
					By	P/L Appropriation A/c	40,000	20,000	15,000
		66,696	38,940	37,864			66,696	38,940	37,864

Working Notes:

(i) New Profit sharing ratio and proportionate partners' capital as per new ratio:

Fixed capital of the firm Rs. 3,00,000

New profit sharing ratio:

A is given 1/5 share

$$\text{Balance share } 1 - \frac{1}{5} = \frac{4}{5}$$

$$\text{Y's share} = \frac{4}{5} \times \frac{2}{3} = \frac{8}{15}$$

$$\text{Z's share} = \frac{4}{5} \times \frac{1}{3} = \frac{4}{15}$$

New ratio

$$\begin{array}{ccc} \text{Y} & \text{Z} & \text{A} \\ \frac{8}{15} & : & \frac{4}{15} & : & \frac{1}{15} \text{ or } 8:4:3 \end{array}$$

Fixed capital of partners in profit sharing ratio will be

$$\text{Y} = \frac{3,00,000 \times 8}{15} = 1,60,000$$

$$\text{Z} = \frac{3,00,000 \times 4}{15} = 80,000$$

$$\text{A} = \frac{3,00,000 \times 3}{15} = 60,000$$

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(ii) Goodwill adjustment at the time of retirement of X

	X Rs.	Y Rs.	Z Rs.
Goodwill as per old ratio 2:2:1	24,000	24,000	12,000
Goodwill in 2:1	<u> </u>	<u>40,000</u>	<u>20,000</u>
	<u>24,000</u>	<u>(16,000)</u>	<u>(8,000)</u>

Goodwill adjustment at the time of admission of A

	Y Rs.	Z Rs.	A Rs.
Goodwill in 2:1 (before admission)	40,000	20,000	—
Goodwill in 8:4:3	<u>32,000</u>	<u>16,000</u>	<u>12,000</u>
	<u>8,000</u>	<u>4,000</u>	<u>(12,000)</u>

(iii) Interest on partner's capital

For the period from 1.4.09 to 31.8.2009 (5 months)

$$\text{X's capital Rs. } 80,000 \times 9\% \times \frac{5}{12} = \text{Rs. } 3,000$$

$$\text{Y's capital Rs. } 80,000 \times 9\% \times \frac{5}{12} = \text{Rs. } 3,000$$

$$\text{Z's capital Rs. } 40,000 \times 9\% \times \frac{5}{12} = \text{Rs. } 1,500$$

$$\text{Total} = \text{Rs. } 7,500$$

For the period from 1.9.2009 to 31.3.2010 (7 months)

$$\text{Y's capital Rs. } 1,60,000 \times 10\% \times \frac{7}{12} = \text{Rs. } 9,333$$

$$\text{Z's capital Rs. } 80,000 \times 10\% \times \frac{7}{12} = \text{Rs. } 4,667$$

$$\text{A's capital Rs. } 60,000 \times 10\% \times \frac{7}{12} = \text{Rs. } 3,500$$

$$\text{Total} = \text{Rs. } 17,500$$

(iv) Commission payable to Z

$$\text{Profit for the period 01.04.2009 to 31.8.2009} = 1,80,000 \times \frac{5}{12} = \text{Rs. } 75,000$$

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Less: Depreciation for the period	Rs. 6,000	
Interest on capital for the period	<u>Rs. 7,500</u>	<u>Rs. 13,500</u>
		<u>Rs. 61,500</u>
Commission to Z @ 10%		
Net profit before commission	=	Rs. 61,500
Profit after 10% commission	=	$\frac{61,500 \times 100}{110}$
	=	Rs. 55,909
Commission @ 10%	=	Rs. 5,591

23. There are several prepackaged accounting softwares which are available in the market and are used extensively for small and medium sized organisations. These softwares are easy to use, relatively inexpensive and readily available. The installation of these softwares is very simple. An installation diskette or CD is provided with the software which can be used to install the software on a personal computer. A network version of this software is also generally available which needs to be installed on the server and work can be performed from the various workstations or nodes connected to the server. Along with the software an user manual is provided which guides the user on how to use the software. After installation of the software, the user should check the version of the software to ensure that they have been provided with the latest. The vendor normally provides regular updates to take care of the changes of law as well as add features to the existing software. These softwares normally have a section which provides for the creation of a company.

Once the basic parameters are set and the master files are updated, the system is ready for use.

24. (a) Three major considerations for the selection of any accounting principles and policies are :

- (a) **Prudence:** Prudence is the inclusion of a degree of caution in the exercise of judgments needed in making estimates required under conditions of uncertainty.

By exercising prudence, an enterprise does not recognise profits on the basis of anticipation. These are recognized only when realised though not necessarily in cash. However, all known losses are anticipated and provided for.

For example, in determining the carrying amount of inventory, the profit margins are ignored and yet, the realisable value if less than cost is taken cognizance of.

- (b) **Substance over form:** If information is to represent faithfully the transactions

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or events, it is essential that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.

For example, where rights and interests in a property stands transferred while legal documentation for the transfer is yet to be completed, the transaction should be recorded as a sale in the books of transferor and acquisition .in the books of transferee.

- (c) **Materiality:** The relevance of information is affected by its materiality. Information is material if its misstatement, i.e. omission or erroneous statement, could influence the economic decisions taken by the user, based on such financial statements. Accordingly, financial statements should disclose all material items, i.e., knowledge of which might influence the decision of the financial statements.

Other qualitative characteristics of accounting information, such as (i) relevance, (ii) neutrality, (iii) completeness, and (iv) reliability are equally critical to users in order that financial statements are meaningful. In the selection and adoption of accounting policies these aspects should also be kept in view

- (b) The Standard provides that interest and other borrowing costs are usually considered as not relating to bringing the inventory to its present location and condition. Therefore, such costs are: usually not included. (Also refer to AS 16 Borrowing Costs). Under AS 16, read with this Standard, interest can be added to the cost of inventories only where time is the major factor in bringing about a change in the condition of inventories.
- (c) As per para 11 of AS 10, when a fixed asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. An alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.
- (d) No, the borrowing cost for the period in which no activity for the construction of building has been started, cannot be capitalized.
- (e) AS 20, 'Earnings per Share' requires disclosure of both basic and diluted EPS even when there is a loss per share.
- (f) (a) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', prior period items are incomes or expenses arising out of errors in one or more prior accounting periods. The question is "whether co. has committed an error in 2008-09 by not recognising the subsidy?" The answer is there was no error, AS 12 (para 13) permits recognition of grant only when there is reasonable assurance that (i) the enterprise will comply with the

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conditions attached to them, (ii) the subsidy will be received. Mere making application does not provide the reasonable assurance that the subsidy will be received. Letter of sanction from IREDA is required to provide this assurance. Hence the company was not recognizing the grant. Further, AS 4 requires adjustment of events occurring after the balance sheet date only up to the date of approval of accounts by the Board of Directors. In view of this, the company is correct in not adjusting the same in the accounts for the year 2008-09. Hence, this is not a prior period item.

- (b) The subsidy should be deducted from the cost of the generator. The revised unamortised, amount of generator should be written off over the remaining useful life.

Alternatively, the same may be treated as deferred income and allocated over the remaining useful life in the proportion in which depreciation is charged.

- (g) The Accounting Standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in companies' economic performance. The setting of accounting standards has the following advantages:
 - (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 practised in different countries.

However, there are some disadvantages 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.

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- (h) As per para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:
- (a) the direct method whereby major classes of gross cash receipts and gross cash payments are disclosed; or
 - (b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

- (a) from the accounting records of the enterprise; or
- (b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial enterprise) and other items in the statement of profit and loss for:
 - (i) changes during the period in inventories and operating receivables and payables;
 - (ii) other non-cash items; and
 - (iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation, provisions, deferred taxes, and unrealized foreign exchange gains and losses; and
- (c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

- (i) 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:

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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.
- 25. (a)** As per para 23 of AS 26 'Intangible Assets' intangible assets should be measured initially at cost. Therefore, Devansh Co. Ltd. should amortize the trademark at its cost of Rs.10,00,000. The unamortized cost on the seller's books (Rs.5,00,000) is irrelevant to the buyer. Although the trademark has a remaining useful life of 20 years, intangible assets are generally amortized over a maximum period of 10 years per AS 26. Therefore, for the year 2009, amortization expense and accumulated amortization is 1,00,000 ($\text{Rs.}10,00,000 \div 10 \text{ years}$).
- (b)** Since Nidhi Ltd. is entitled to a CENVAT credit of Rs.1,500, excise duty payable on finished goods is notionally adjusted against excise duty paid on materials consumed. Thus, CENVAT related excise duty cannot be included as a part of the cost of inventory. The cost of inventory would thus be valued at Rs.13,500 ($11,500 + 1,800 + 1,700 - 1,500$) only.
- (c)** In this situation, each asset will be treated as a "single contract notwithstanding the fact that there is only one document of contract. Four contract accounts have to be recorded in the books of X Co. For each contract account, principles of revenue and cost recognition have to be applied separately, and separate income will be determined for each asset.

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- (d) Since the amount spent increases the performance of the asset, beyond its previously assessed level of performance, therefore, the amount of Rs. 23,000 should be capitalized.

(e)	Rs.
Interest for 2008-09 (1.7.2008 to 30.3.2009) = $10,00,000 \times \frac{12}{100} \times \frac{9}{12}$	90,000
Less : Interest earned on surplus funds	<u>15,000</u>
Borrowing cost to be capitalized with asset 'A'	<u>75,000</u>
Interest for 2009-10 (upto 30.6.2009) = $10,00,000 \times \frac{12}{100} \times \frac{3}{12}$	30,000
Rs. 2 lakh is repaid after one year i.e. on 30.6.2009 (1.7.09 to 31.3.10)	
= $8,00,000 \times \frac{12}{100} \times \frac{9}{12}$	<u>72,000</u>
Borrowing cost	<u>1,02,000</u>

Out of the above Rs. 30,000 will be capitalized with asset 'A' as the asset is now completed. The cost incurred thereafter i.e. Rs. 72,000 will be charged to Profit and Loss account.

(f)	Rs.
Net profit	2,00,000
Less Preference Dividend $5,00,000 \times 10\% =$	50,000
Corporate Dividend tax $15\% =$	<u>7,500</u>
Net profit attributable to equity shareholders	<u>1,42,500</u>

Equity Dividend and Corporate Dividend Tax thereon are not to be considered for calculating EPS. These are not deducted from net profit/loss for the period available for equity shareholders.

$$\text{Weighted average number of shares} = 3000 \times \frac{12}{12} + 2000 \times \frac{6}{12} = 4,000$$

$$\therefore \text{Basic EPS} = \frac{1,42,500}{4,000} = \text{Rs } 35.63.$$

- (g) Two methods of presentation of financial statements of grants related to specific fixed assets are regarded as acceptable alternatives as per AS 12 'Accounting for Government Grants'.

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I Method

		Rs. in lakhs	
Credit the grant to fixed asset			
Bank A/c	Dr.	4	
To Fixed Asset A/c			4
(The book value is reduced to Rs.6 lakh, the estimated scrap value is Rs. 2 lakh and life 4 years, hence depreciation to be charged on this asset every year will be Rs. 1 lakh)			

II Method

Credit the grant as deferred income			
Bank A/c	Dr.	4	
To Deferred Govt. Grant A/c			4
(The book value of asset is Rs. 10 lakh, residual value is Rs. 2 lakh and life is 4 years, hence depreciation to be charged Rs. 2 lakh p.a. for 4 years)			

The grant has to be recognized in P&L account over the life of asset in proportion to depreciation. Depreciation is Rs. 2 lakhs p.a. for 4 years hence, grant to be written-off will be Rs. 1 lakh p.a. for 4 years. The entry every year will be as follows every year.

Deferred Govt. Grant A/c	Dr.	1	
To P&L A/c			1

- (h) AS 9 on Revenue Recognition defines revenue as 'gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of the enterprise from the sale of goods, from the rendering of services and from the use by others of enterprise resources yielding interest, royalties and dividends'.

To recognise revenue AS 9 requires that revenue arises from ordinary activities and that it is measurable and there should be no uncertainty. As per para 9.2 of the Standard, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, 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.

In the given case, TVSM company wants to suddenly recognise Insurance claim because it has increased over the previous year. But, there are uncertainties involved in the settlement of the claim. Also, the claim does not seem to be in the course of ordinary activity of the company.

Hence, TVSM company is not advised to recognise the Insurance claim as revenue.

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- (i) (i) Paragraph 4 of Accounting Standard 5 on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods".

Rectification of error in stock valuation is a prior period item vide Para 4 of AS 5. Rs.14.5 lakhs must be added to the opening stock of 1.4.2009. It is also necessary to show Rs. 14.5 lakhs as a prior period adjustment in the Profit and loss Account below the line. Separate disclosure of this item as a prior period item is required as per Para 15 of AS 5.

- (ii) In the given case, the company spent Rs. 45 lakhs for publicity and research of a new product which was marketed but proved to be a failure. It is clear that in future there will be no related further revenue/benefit because of the failure of the product. Thus according to paras 41 to 43 of AS 26 'Intangible Assets', the company should charge the total amount of Rs. 45 lakhs as an expense in the profit and loss account.
- (j) As per paras 8.2 and 13 of Accounting Standard 4 on Contingencies and Events Occurring after the Balance Sheet Date, Assets and Liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist estimation of amounts relating to conditions existing at the balance sheet date.

So full provision for bad debt amounting to Rs. 2 lakhs should be made to cover the loss arising due to the insolvency in the Final Accounts for the year ended 31st March, 2010. It is because earthquake took place before the balance sheet date.

Had the earthquake taken place after 31st March, 2010, then mere disclosure required as per para 15, would have been sufficient.

- (k) Present value of residual value = Rs. 40,000 $\times$ 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.

- (l) Lucky Ltd. had sold goods to Victory Ltd on credit worth for Rs.250 crores and the sale was completed in all respects. Victory Ltd's decision to sell the same in the domestic market at a discount does not affect the amount recorded as sales by Lucky Ltd. The price discount of 15% offered by Lucky Ltd. after request of Victory Ltd. was not in the nature of a discount given during the ordinary course of trade because otherwise the same would have been given at the time of sale itself. Now, as far Lucky Ltd is concerned, there appears to be an uncertainty relating to the collectability of the debt, which has arisen subsequent to the time of sale therefore, it would be appropriate to

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make a separate provision to reflect the uncertainty relating to collectability rather than to adjust the amount of revenue originally recorded. Therefore, such discount should be written off to the profit and loss account and not shown as deduction from the sales figure.

- (m) As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Sundry creditors is a monetary item, hence should be valued at the closing rate i.e., Rs.48 at 31st March, 2010 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of Rs.5 (48-43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2010 and is not to be adjusted against the cost of raw- materials. In the subsequent year, the company would record an exchange gain of Re.1 per US dollar, i.e., the difference between Rs.48 and Rs.47 per Us dollar. Hence, the accounting treatment adopted by the company is incorrect.

Note: AS 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 16, 19, 20, 26 & 29 are applicable for November, 2010 examination. It may be noted that ASI 2 has been withdrawn.

Appendix

Companies (Accounting Standards) Amendment Rules, 2009 – Amendments in Annexure

NOTIFICATION NO. G.S.R.225 (E)

DATED 31-3-2009

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 read with sub-section (1) of section 21A and sub-section (3C) of section 211 of the Companies Act, 1956 (1 of 1956), the Central Government in consultation with the National Advisory Committee on Accounting Standards, hereby makes the following rules to amended the Companies (Accounting Standards) Rules, 2006, namely:-

1. (1) These rules may be called the Companies (Accounting Standards) Amendment Rules, 2009.
(2) They shall come into force on the date of their publication in the Official Gazette.
2. In the Companies (Accounting Standard) Rules, 2006, in the Annexure, under the heading "B. ACCOUNTING STANDARDS", in the sub-heading "Accounting Standard

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(AS) 11” relating to “The Effects of Changes in Foreign Exchange Rates”, after paragraph 45, the following shall be inserted, namely:-

“46. In respect of accounting periods commencing on or after 7th December, 2006 and ending on or before 31st March, 2011, at the option of the enterprise (such option to be irrevocable and to be exercised retrospectively for such accounting period, from the date this transitional provision comes into force or the first date on which the concerned foreign currency monetary item is acquired, whichever is later and applied to all such foreign currency monetary items), exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, insofar as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset, and in other cases, can be accumulated in a “Foreign Currency Monetary Item Translation Difference Account” in the enterprise’s financial statements and amortized over the balance period of such long-term asset/liability but not beyond 31st March, 2011, by recognition as income or expense in each of such periods, with the exception of exchange differences dealt with in accordance with paragraph 15. For the purposes of exercise of this option, an asset or liability shall be designated as a long-term foreign currency monetary item, if the asset or liability is expressed in a foreign currency and has a term of 12 months or more at the date of origination of the asset or liability. Any difference pertaining to accounting periods which commenced on or after 7th December, 2006, previously recognized in the profit and loss account before the exercise of the option shall be reversed insofar as it relates to the acquisition of a depreciable capital asset by addition or deduction from the cost of the asset and in other cases by transfer to “Foreign Currency Monetary Item Translation Difference Account” in both cases, by debit or credit, as the case may be, to the general reserve. If the option stated in this paragraph is exercised, disclosure shall be made of the fact of such exercise of such option and of the amount remaining to be amortized in the financial statements of the period in which such option is exercised and in every subsequent period so long as any exchange difference remains unamortized.”