

## PAPER – 1 : ADVANCED ACCOUNTING

### PART – I : RELEVANT ANNOUNCEMENTS, AMENDMENTS AND NOTIFICATIONS

#### A. Applicable for May, 2012 examination

##### 1. Limited Revisions due to Issuance of AS 30 and 31

As per the announcement issued by the Accounting Standard Board of the ICAI regarding applicability of AS 30 (dated 11<sup>th</sup> February, 2011) in respect of the financial statements, it has been clarified that to the extent of accounting treatments covered by any of the existing notified accounting standards (for eg. AS 11, AS 13 etc.) the existing notified accounting standards would continue to prevail over AS 30.

##### 2. Amendment to Accounting Standard 11 of Companies (Accounting Standards) Rules, 2006

Ministry of Corporate Affairs vide its notification number G.S.R. (E) has partially amended the notification number GSR No. 225(E) dated 31.03.2009. Through this notification, the MCA has extended the option (for the enterprises) to capitalize the exchange differences arising on reporting of long term foreign currency monetary items till 31<sup>st</sup> March 2012 instead of 31<sup>st</sup> March 2011.

##### 3. Sale of Investments held under Held to Maturity (HTM) category

Securities acquired by banks with the intention to hold them up to maturity may be classified under Held to Maturity (HTM) category. Banks are, however, allowed to shift investments to/from HTM with the approval of the Board of Directors once a year. Such shifting is normally allowed at the beginning of the accounting year and no further shifting to/from HTM is allowed during the remaining part of that accounting year. However, securities under HTM category are intended to be held till maturity and accordingly are not required to be marked to market.

RBI has decided vide a notification that if the value of sales and transfers of securities to/from HTM category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year, bank should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value for which provision is not made. This disclosure is required to be made in 'Notes to Accounts' in banks' audited Annual Financial Statements.

##### 4. Enhancement of Rates of Provisioning for Non-Performing Assets and Restructured Advances

RBI vide its notification RBI 2010-11/529 DBOD.No.BP.BC. 94/21.04.048/2011-12 dated May 18, 2011 has revised provisioning requirements for the following categories of non-performing advances and restructured advances for all Scheduled Commercial Banks (Excluding RRBs) as under:

1. Sub-Standard Advances: Advances classified as "sub-standard" will attract a provision of 15 per cent as against the existing 10 per cent. The "unsecured

exposures" classified as sub-standard assets will attract an additional provision of 10 per cent, i.e., a total of 25 per cent as against the existing 20 per cent. However, "unsecured exposures" in respect of Infrastructure loan accounts classified as sub-standard, in case of which certain safeguards such as escrow accounts are available will attract an additional provision of 5 per cent only i.e. a total of 20 per cent as against the existing 15 per cent.

2. **Doubtful Advances:** Doubtful Advances will continue to attract 100% provision to the extent the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis. However, in respect of the secured portion, following provisioning requirements will be applicable:
  - (i) The secured portion of advances which have remained in "doubtful" category up to one year will attract a provision of 25 per cent (as against the existing 20 per cent);
  - (ii) The secured portion of advances which have remained in "doubtful" category for more than one year but upto 3 years will attract a provision of 40 per cent (as against the existing 30 per cent); and
  - (iii) The secured portion of advances which have remained in "doubtful" category for more than 3 years will continue to attract a provision of 100%.
3. **Restructured Advances:**
  - (i) Restructured accounts classified as standard advances will attract a provision of 2 per cent in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract a provision of 2 per cent for the period covering moratorium and two years thereafter (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances); and
  - (ii) Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2 per cent in the first year from the date of upgradation (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances).
4. All other instructions on provisioning will remain unchanged.

Rates of Provisioning for Non-Performing Assets and Restructured Advances are summarized as follows:

| Category of Advances   | Existing Rate (%) | Revised Rate (%) |
|------------------------|-------------------|------------------|
| Sub- standard Advances |                   |                  |
| · Secured Exposures    | 10                | 15               |
| · Unsecured Exposures  | 20                | 25               |

|                                                                                                                                                                                                                                                     |                                                          |     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|-----|
| · Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available.                                                                                                                    | 15                                                       | 20  |
| Doubtful Advances – Unsecured Portion                                                                                                                                                                                                               | 100                                                      | 100 |
| Doubtful Advances – Secured Portion                                                                                                                                                                                                                 |                                                          |     |
| · For Doubtful upto 1 year                                                                                                                                                                                                                          | 20                                                       | 25  |
| · For Doubtful > 1 year and upto 3 years                                                                                                                                                                                                            | 30                                                       | 40  |
| · For Doubtful > 3 years                                                                                                                                                                                                                            | 100                                                      | 100 |
| Loss Advances                                                                                                                                                                                                                                       | 100                                                      | 100 |
| Restructured accounts classified as standard advances in the first two years from the date of restructuring; and in cases of moratorium on payment of interest/principal after restructuring – period covering moratorium and two years thereafter. | 0.25 to 1.00<br>(depending upon the category of advance) | 2   |
| Restructured accounts earlier classified as NPA and later upgraded to standard category in the first year from the date of upgradation                                                                                                              | 0.25 to 1.00<br>(depending upon the category of advance) | 2   |

**B. Not Applicable for May, 2012 Examination**

**1. Schedule VI revised by the Ministry of Corporate Affairs**

The Ministry of Corporate Affairs (MCA) has revised Schedule VI to the Companies Act, 1956 on the 28th February, 2011 pertaining to the preparation of Balance Sheet and Profit and Loss Account under the Companies Act, 1956. This revised Schedule VI has been framed as per the existing non-converged Indian Accounting Standards notified under the Companies (Accounting Standards), Rules, 2006. The Revised Schedule VI shall come into force for the Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 1.4.2011. However, the revised Schedule VI is not made applicable for May, 2012 examination.

**2. Ind ASs issued by the Ministry of Corporate Affairs**

The Ministry of Corporate Affairs (MCA) has issued 35 Converged Indian Accounting Standards (known as 'Ind-AS'), without announcing the applicability date. The issuance of Ind-AS is a significant step towards the implementation of converged standards in India. However, Ind ASs are not made applicable for May, 2012 examination.

## PART – II : QUESTIONS AND ANSWERS

## QUESTIONS WITH HINTS

## Profit or Loss Prior to Incorporation

1. (a) (i) Agra Company, incorporated on 1<sup>st</sup> April, 2011, took over running business from 1<sup>st</sup> January, 2011. The company prepares its first final accounts on 31<sup>st</sup> December, 2011. From the following information, you are required to calculate the sales ratio of pre-incorporation and post-incorporation periods:
1. Sales for January, 2011 to December, 2011 is ₹ 7,20,000.
  2. The sales for the month of January is twice of the average sales; for the month of February it is equal to average sales, sales for four months from May to August is 1/4 of the average of each month; and sales for October and November is three times the average sales.
- (ii) Fatafat Ltd. took over a running business with effect from 1<sup>st</sup> April, 2010. The company was incorporated on 1<sup>st</sup> August, 2010. The following Profit and Loss Account has been prepared for the year ended 31.3.2011:

|                                 | ₹               |                 | ₹               |
|---------------------------------|-----------------|-----------------|-----------------|
| To Salaries                     | 48,000          | By Gross profit | 3,20,000        |
| To Stationery                   | 4,800           |                 |                 |
| To Travelling expenses          | 16,800          |                 |                 |
| To Advertisement                | 16,000          |                 |                 |
| To Miscellaneous trade expenses | 37,800          |                 |                 |
| To Rent (office buildings)      | 26,400          |                 |                 |
| To Electricity charges          | 4,200           |                 |                 |
| To Director's fee               | 11,200          |                 |                 |
| To Bad debts                    | 3,200           |                 |                 |
| To Commission to selling agents | 16,000          |                 |                 |
| To Audit fee                    | 6,000           |                 |                 |
| To Debenture interest           | 3,000           |                 |                 |
| To Interest paid to vendors     | 4,200           |                 |                 |
| To Selling expenses             | 25,200          |                 |                 |
| To Depreciation on fixed assets | 9,600           |                 |                 |
| To Net profit                   | <u>87,600</u>   |                 |                 |
|                                 | <u>3,20,000</u> |                 | <u>3,20,000</u> |

Additional information:

- (a) Total sales for the year, which amounted to ₹ 19,20,000 arose evenly

upto the date of 30.9.2010. Thereafter they spurted to record an increase of two-third during the rest of the year.

- (b) Rent of office building was paid @ ₹ 2,000 per month upto September, 2010 and thereafter it was increased by ₹ 400 per month.
- (c) Travelling expenses include ₹ 4,800 towards sales promotion.
- (d) Depreciation includes ₹ 600 for assets acquired in the post incorporation period.
- (e) Purchase consideration was discharged by the company on 30<sup>th</sup> September, 2010 by issuing equity shares of ₹ 10 each.

Prepare the Profit and Loss A/c in columnar form showing distinctly the allocation of expenses between pre and post incorporation periods.

#### Cash Flow Statement

- (b) From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2011 in accordance with AS 3 (Revised) using direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2011

|                            | ₹ '000       |                             | ₹ '000       |
|----------------------------|--------------|-----------------------------|--------------|
| To Balance on 1.4.2010     | 50           | By Payment to Suppliers     | 2,000        |
| To Issue of Equity Shares  | 300          | By Purchase of Fixed Assets | 200          |
| To Receipts from Customers | 2,800        | By Overhead expense         | 200          |
| To Sale of Fixed Assets    | 100          | By Wages and Salaries       | 100          |
|                            |              | By Taxation                 | 250          |
|                            |              | By Dividend                 | 50           |
|                            |              | By Repayment of Bank Loan   | 300          |
|                            |              | By Balance on 31.3.2011     | 150          |
|                            | <u>3,250</u> |                             | <u>3,250</u> |

#### Buy –Back of Shares

2. (a) Kuber Ltd. furnishes you with the following Balance Sheet as at 31st March, 2011:

|                                                           | (₹ in crores) |            |
|-----------------------------------------------------------|---------------|------------|
| Sources of funds:                                         |               |            |
| Authorised share capital:                                 |               | <u>100</u> |
| Issued share capital:                                     |               |            |
| 12% Redeemable preference shares of ₹ 100 each fully paid | 75            |            |

|                                             |              |            |
|---------------------------------------------|--------------|------------|
| Equity shares of ₹ 10 each fully paid       | <u>25</u>    | 100        |
| Reserves and surplus:                       |              |            |
| Capital reserve                             | 15           |            |
| Securities premium                          | 25           |            |
| Revenue reserves                            | <u>260</u>   | <u>300</u> |
|                                             |              | <u>400</u> |
| Funds employed in:                          |              |            |
| Fixed assets: Cost                          | 100          |            |
| Less: Provision for depreciation            | <u>(100)</u> | nil        |
| Investment at cost (market value ₹ 400 Cr.) |              | 100        |
| Current assets                              | 340          |            |
| Less: Current liabilities                   | <u>(40)</u>  |            |
|                                             |              | <u>300</u> |
|                                             |              | <u>400</u> |

The company redeemed preference shares on 1st April, 2011. It also bought back 50 lakhs equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as part of current assets.

You are asked to :

- Pass journal entries to record the above.
- Prepare balance sheet (after reconstruction).
- Value an equity share on net asset basis.

#### Underwriting of Shares

- (b) Ram Limited invited applications from public for 10,00,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The entire issue was underwritten by the underwriters X, Y, Z and T to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 30,000, 20,000, 10,000 and 10,000 shares respectively. The underwriters were entitled to the maximum 2.5% commission.

The company received applications for 7,00,000 shares from public, out of which applications for 1,90,000, 1,00,000, 2,10,000 and 80,000 shares were marked in favour of X, Y, Z and T respectively.

Calculate the gross liability of each underwriter in terms of shares. Also ascertain the underwriting commission, payable to or by different underwriters.

**Amalgamation of Companies**

3. Given below are the balance sheets of two companies as on 31<sup>st</sup> December, 2011:

**A Limited**

| Liabilities                                                                                    | ₹         | Assets                | ₹         |
|------------------------------------------------------------------------------------------------|-----------|-----------------------|-----------|
| Issued and fully paid share capital:<br>50,000 8% cumulative preference<br>shares of ₹ 10 each | 5,00,000  | Patent rights         | 2,00,000  |
| 1,50,000 equity shares of ₹ 10 each                                                            | 15,00,000 | Land and buildings    | 6,00,000  |
| General reserves                                                                               | 8,00,000  | Plant and machinery   | 15,50,000 |
| Profit and loss A/c                                                                            | 90,000    | Stock                 | 3,50,000  |
| Sundry creditors                                                                               | 50,000    | Sundry debtors        | 80,000    |
|                                                                                                | 29,40,000 | Cash and bank balance | 1,60,000  |
|                                                                                                |           |                       | 29,40,000 |

**B Limited**

| Liabilities                                                        | ₹               | Assets                | ₹               |
|--------------------------------------------------------------------|-----------------|-----------------------|-----------------|
| Issued and fully paid share capital:<br>40,000 shares of ₹ 10 each | 4,00,000        | Goodwill              | 70,000          |
| Profit and loss account                                            | 32,000          | Motor Vehicles        | 40,000          |
| Sundry creditors                                                   | 21,000          | Furniture             | 25,000          |
|                                                                    |                 | Stock                 | 2,39,000        |
|                                                                    |                 | Sundry debtors        | 62,000          |
|                                                                    |                 | Cash and Bank balance | 17,000          |
|                                                                    | <u>4,53,000</u> |                       | <u>4,53,000</u> |

On 1<sup>st</sup> January, 2012, it has been agreed that both these companies should be wound up and a new company Shakti Ltd. should be formed to acquire the assets of both the companies on the following terms:

- Shakti Ltd. is to have an authorised capital of ₹ 30,00,000 divided into 50,000 5% cumulative preference shares of ₹ 10 each and 2,50,000 equity shares of ₹ 10 each.
- Shakti Ltd. is to purchase whole of the assets of A Ltd. (except cash and bank balances) for ₹ 27,95,000 to be settled by paying ₹ 5,45,000 in cash and balance by issue of 1,80,000 equity shares at a premium of ₹ 2.50 each.
- Shakti Ltd. is to purchase whole of the assets of B Ltd. (except cash and bank balances) for ₹ 3,81,000 to be settled by paying ₹ 6,000 in cash and balance by issue of 30,000, equity shares ₹ 12.50 each.

- (iv) Shakti Ltd. is to make a public issue of 50,000, 5% cumulative preference shares at par and 30,000 equity shares, at the issue price of ₹ 12.50 per share, all payable in full on application
- (v) A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in Shakti Ltd. in kind among the equity shareholders of the respective companies.
- (vi) The liquidator of A Ltd. is to pay the preference shareholders ₹ 10 in cash for every share held in full satisfaction of their claims.

It is estimated that the costs of liquidation (including the liquidators, remuneration) will be ₹ 5,000 in case of A Ltd. and ₹ 2,000 in the case of B Ltd. and that the preliminary expenses of Shakti Ltd. will amount to ₹ 18,000 exclusive of the underwriting commission of ₹ 23,750 payable on the public issue. The scheme has been sanctioned and carried through in its entirety.

You are required to:

- (a) Pass the necessary journal entries in the books of A Ltd. for winding up.
- (b) Draw up the initial Balance Sheet of Shakti Ltd. on the basis that all assets other than goodwill are taken over at the books values.

#### Internal Reconstruction of a Company

4. Yoga Ltd. found itself in financial difficulty. The balance sheet of the company as at 31<sup>st</sup> March, 2011 was as follows:

|                                    | ₹         |                         | ₹         |
|------------------------------------|-----------|-------------------------|-----------|
| Equity shares of ₹ 10 each         | 10,00,000 | Goodwill                | 3,00,000  |
| 10% Preference shares of ₹ 10 each | 4,00,000  | Land                    | 4,00,000  |
| 12% Debentures                     | 3,00,000  | Building at cost        | 3,75,000  |
| Interest payable on debentures     | 36,000    | Machinery at cost       | 2,20,000  |
| Loan from directors                | 1,00,000  | Investments             | 2,25,000  |
| Provision for depreciation:        |           | Stock                   | 3,60,000  |
| Buildings                          | 75,000    | Debtors                 | 2,00,000  |
| Machinery                          | 80,000    | Cash                    | 5,000     |
| Bank overdraft                     | 1,50,000  | Profit and loss account | 3,15,000  |
| Sundry creditors                   | 2,59,000  |                         |           |
|                                    | 24,00,000 |                         | 24,00,000 |

The authorised share capital of the company is 2,50,000 equity shares of ₹ 10 each and 50,000 10% preference shares of ₹ 10 each.



It was decided during a meeting of the shareholders and directors of the company to carry out a scheme of internal reconstruction as follows:

1. Each equity share is to be redesigned as a share of ₹ 2.50. The equity shareholders are to accept a reduction in the nominal value of their share from ₹ 10 to ₹ 2.50 and subscribe for a new issue on the basis of 1 for 2 at a price of ₹ 4 per share.
2. The existing preference shares are to be exchanged for a new issue of 30,000 15% preference shares of ₹ 10 each and 40,000 equity shares of ₹ 2.50 each.
3. The debenture holders are to accept 10,000 equity shares of ₹ 2.50 each in lieu of interest payable. The interest rate is to be increased to 14%. A further ₹ 1,00,000 of 14% debentures of ₹ 100 each is to be issued and taken up by the existing holders at ₹ 90.
4. ₹ 40,000 of director's loan is to be cancelled. The balance amount is to be settled by issue of ₹ 10,000 equity shares of ₹ 2.50 each @ ₹ 6 each.
5. The investments are to be sold at current market price of ₹ 3,00,000.
6. The bank overdraft is to be repaid.
7. A sum of ₹ 1,59,000 is to be paid to the creditors immediately and the balance is to be paid at quarterly intervals.
8. All intangible assets are to be eliminated.
9. The following assets are to be adjusted to fair values:

|           | ₹        |
|-----------|----------|
| Debtors   | 1,80,000 |
| Stock     | 3,20,000 |
| Machinery | 1,00,000 |
| Buildings | 2,50,000 |
| Land      | 3,20,000 |

You are required to :

- (a) Show the journal entries to effect the reconstruction scheme; and
- (b) Prepare the balance sheet of the company immediately after reconstruction.

#### Liquidation of a company

5. The following is the Balance Sheet of Shah Ltd. which is in the hands of the liquidator:

#### Balance Sheet as at 31.12.2011

| Liabilities    | ₹ | Assets       | ₹        |
|----------------|---|--------------|----------|
| Share Capital: |   | Fixed assets | 2,00,000 |

|                                                       |                 |                         |                 |
|-------------------------------------------------------|-----------------|-------------------------|-----------------|
| 1,000, 6% Preference Shares of ₹ 100 each, fully paid | 1,00,000        | Stock                   | 1,20,000        |
| 2,000 Equity shares of ₹ 100 each, fully paid         | 2,00,000        | Book debts              | 2,40,000        |
| 2,000 Equity shares of ₹ 100 each ₹ 75 paid up        | 1,50,000        | Cash in hand            | 40,000          |
| Loan from bank (on security of stock)                 | 1,00,000        | Profit and loss account | 3,00,000        |
| Trade creditors                                       | <u>3,50,000</u> |                         |                 |
|                                                       | <u>9,00,000</u> |                         | <u>9,00,000</u> |

The assets realized the following amounts (after all costs of realization and liquidator's commission amounting to ₹ 5,000 paid out of cash in hand).

|              | ₹        |
|--------------|----------|
| Fixed assets | 1,68,000 |
| Stock        | 1,10,000 |
| Book debts   | 2,30,000 |

Calls on partly paid shares were made but the amounts due on 200 shares were found to be irrecoverable.

Prepare Liquidator's Final Statement of Receipts and Payments.

#### Financial Statements of Banking Companies

6. In the following transactions of the Unique Bank Ltd., you are required to pass the necessary journal entries as well as their treatment in the Profit & Loss Account and Balance Sheet in respect of the year ended 31.12.2011:

- (a) The following bills were discounted @ 5%:

|       | Discounted on | Amount ₹ | Due date inclusive of 3 days of grace |
|-------|---------------|----------|---------------------------------------|
| (i)   | 28.12.2011    | 50,000   | 31.1.2012                             |
| (ii)  | 29.7.2011     | 1,00,000 | 30.11.2011                            |
| (iii) | 29.10.2011    | 4,00,000 | 30.4.2012                             |
| (iv)  | 31.12.2011    | 30,000   | 3.3.2012                              |

- (b) The Bank has accepted Bills on behalf of its customers amounting to ₹ 2,00,000 at nominal commission of 2%.
- (c) The Bank has advanced an amount of ₹ 5,00,000 having a covering for the same through bills worth ₹ 2,00,000 and goods on key-loan basis ₹ 4,00,000.

**Financial Statements of Insurance Companies**

7. From the following balances extracted from the books of Great General Insurance Company Limited as on 31.3.2011, you are required to prepare Revenue Accounts in respect of Fire and Marine Insurance business for the year ended 31.3.2011 to and a Profit and Loss Account for the same period :

|                                             | ₹        |                                    | ₹      |
|---------------------------------------------|----------|------------------------------------|--------|
| Directors' Fee                              | 80,000   | Interest received                  | 19,000 |
| Dividend received                           | 1,00,000 | Fixed Assets (1.4.2010)            | 90,000 |
| Provision for Taxation<br>(as on 1.4. 2010) | 85,000   | Income-tax paid during<br>the year | 60,000 |

|                                        | Fire     | Marine   |
|----------------------------------------|----------|----------|
|                                        | ₹        | ₹        |
| Outstanding Claims on 1.4.2010         | 28,000   | 7,000    |
| Claims paid                            | 1,00,000 | 80,000   |
| Reserve for Unexpired Risk on 1.4.2010 | 2,00,000 | 1,40,000 |
| Premiums Received                      | 4,50,000 | 3,30,000 |
| Agent's Commission                     | 40,000   | 20,000   |
| Expenses of Management                 | 60,000   | 45,000   |
| Re-insurance Premium (Dr.)             | 25,000   | 15,000   |

The following additional points are also to be taken into account:

- Depreciation on Fixed Assets to be provided at 10% p.a.
- Interest accrued on investments ₹ 10,000.
- Closing provision for taxation on 31.3.2011 to be maintained at ₹ 1,24,138
- Claims outstanding on 31.3.2011 were Fire Insurance ₹ 10,000; Marine Insurance ₹ 15,000.
- Premium outstanding on 31.3.2011 were Fire Insurance ₹ 30,000; Marine Insurance ₹ 20,000.
- Reserve for unexpired risk to be maintained at 50% and 100% of net premium in respect of Fire and Marine Insurance respectively.
- Expenses of management due on 31.3.2011 were ₹ 10,000 for Fire Insurance and ₹ 5,000 in respect of marine Insurance.

### Financial Statements of Electricity Company

8. Electric Supply Ltd. rebuilt and re-equipped one of their Mains at a cash cost of ₹ 40,00,000. The old Mains thus superseded cost ₹ 15,00,000. The capacity of the new Main is double that of the old Main. ₹ 70,000 was realised from sale of old materials. Four old motors valued at ₹ 2,00,000 salvaged from the old Main were used in the reconstruction. The cost of Labour and Materials are respectively 30% and 25% higher now than when the old Main was built. The proportion of Labour to Materials in the Main then and now is 2 : 3.

Show the Journal entries for recording the above transactions.

### Average Due Date

9. (a) Mehnaaz accepted the following bills drawn by Shehnaaz:
- On 8th March, 2011, ₹ 4,000 for 4 months.
  - On 16th March, 2011, ₹ 5,000 for 3 months.
  - On 7th April, 2011, ₹ 6,000 for 5 months.
  - On 17th May, 2011, ₹ 5,000 for 3 months.
- He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Mehnaaz wants to earn ₹ 150 by way of interest. Find out the date on which he has to effect the payment to earn interest of ₹ 150.

### Account Current

- (b) The following are the transactions that took place between Rohan & Sunil during the half year ended 30<sup>th</sup> June, 2011:

|      |                                                                                                   | ₹     |
|------|---------------------------------------------------------------------------------------------------|-------|
| i    | Balance due to Rohan by Sunil on 1 January, 2011                                                  | 3,010 |
| ii   | Goods sold by Rohan to Sunil on 7 January, 2011                                                   | 4,430 |
| iii  | Goods purchased by Rohan from Sunil on 16 February, 2011                                          | 6,480 |
| iv   | Goods returned by Rohan to Sunil on 18 February, 2011 (out of the purchases of 16 February, 2011) | 560   |
| v    | Goods sold by Sunil to Rohan on 24 <sup>th</sup> March, 2011                                      | 3,560 |
| vi   | Bill accepted by Rohan at 3 months on 22 <sup>nd</sup> April, 2011                                | 1,500 |
|      | Cash paid by Rohan to Sunil on 29 <sup>th</sup> April, 2011                                       | 2,500 |
| vii  | Goods sold by Rohan to Sunil on 17 <sup>th</sup> May, 2011                                        | 2,710 |
| viii | Goods sold by Sunil to Rohan on 22 <sup>nd</sup> June, 2011                                       | 2,280 |

Draw up an account current to be rendered by Sunil to Rohan (by interest method) charging interest @ 10% per annum.

### Self – Balancing Ledgers

10. From the following particulars, prepare Total Debtors Account and Total Creditors Account in the general ledger:

|                        | Dr. (₹) | Cr.(₹) |
|------------------------|---------|--------|
| Balance as on 1-4-2011 |         |        |
| Sundry Debtors         | 40,000  | 600    |
| Sundry Creditors       | 400     | 30,000 |

| Transactions during April, 2011                                        | ₹      |
|------------------------------------------------------------------------|--------|
| Purchases (including cash ₹ 8,000)                                     | 24,000 |
| Sales (including cash ₹ 12,000)                                        | 50,000 |
| Cash paid to suppliers in full settlement of claims of ₹ 18,000)       | 17,000 |
| Cash received from customers (in full settlement of claims of ₹30,000) | 28,200 |
| Bills payable accepted (including renewals)                            | 4,000  |
| Bills payable withdrawn on renewals                                    | 1,000  |
| Interest on B/P renewal                                                | 40     |
| Bills receivable received                                              | 6,000  |
| Bills receivable endorsed                                              | 1,600  |
| Endorsed B/R dishonoured                                               | 600    |
| B/R discounted                                                         | 2,800  |
| Bills receivable dishonoured                                           | 800    |
| Interest charged on dishonoured B/R                                    | 60     |
| Transfer from Debtors Ledger to Creditors Ledger                       | 1,200  |
| Returns (Cr.)                                                          | 1,400  |
| Balance as on 30-4-2011                                                |        |
| Sundry Debtors (Cr.)                                                   | 900    |
| Sundry Creditors (Cr.)                                                 | 21,740 |

### Accounting for Not-For-Profit Organisations

11. From the following information relating to Mukta Social Club, you are required to prepare:

- (a) An Income and Expenditure Account (including profit or loss on bar) for the year ended 31<sup>st</sup> March 2011; and
- (b) A Balance Sheet at that date.
- (i) A summary of cash book for the year 2010-2011 is as follows:

|                         | ₹               |                                     | ₹               |
|-------------------------|-----------------|-------------------------------------|-----------------|
| Bank balance            | 8,360           | Bar supplies                        | 1,34,610        |
| Annual subscriptions    | 36,680          | Bar wages                           | 10,990          |
| Bar takings             | 1,53,920        | Salaries and wages                  | 13,650          |
| Hire of rooms           | 1,460           | Office expenses                     | 4,240           |
| Income from investments | 3,150           | Lighting and heating                | 3,720           |
| Sale of investments     | 3,280           | Rates and insurance                 | 2,870           |
|                         |                 | Miscellaneous expenses              | 3,030           |
|                         |                 | Investments                         | 14,000          |
|                         |                 | Furniture (purchased on 01.10.2010) | 9,000           |
|                         |                 | Bank balance                        | <u>10,740</u>   |
|                         | <u>2,06,850</u> |                                     | <u>2,06,850</u> |

- (ii) The balance at bank on 1<sup>st</sup> April, 2010 represented ₹ 3,360 on current account and ₹ 5,000 on deposit account. All the receipts shown in the above summary were paid into the Current Account except for ₹ 510 deposit account interest (included in income from investment) and all payments were made from the Current Account. During 2010-2011, ₹ 3,000 were transferred from the Current Account to the Deposit Account.
- (iii) The following items were outstanding on 31<sup>st</sup> March:

|                                                          | 31.03.2010<br>₹ | 31.03.2011<br>₹ |
|----------------------------------------------------------|-----------------|-----------------|
| Subscriptions in arrears                                 | 790             | 980             |
| Salaries and wages accrued                               | 330             | 410             |
| Creditors for bar supplies                               | 12,170          | 13,250          |
| Stock of stationery (included in office expenses)        | 560             | 650             |
| Subscription in advance                                  | 140             | 260             |
| Telephone bill outstanding (included in office expenses) | 290             | 370             |
| Electricity charges unpaid                               | 310             | 440             |
| Debtors for bar sales                                    | 120             | 490             |

|                                                                  |        |        |
|------------------------------------------------------------------|--------|--------|
| Outstanding repairs account (included in miscellaneous expenses) | 90     | 530    |
| Bar wages accrued                                                | 210    | 230    |
| Stock of coal                                                    | 400    | 570    |
| Rates and insurance prepaid                                      | 620    | 730    |
| Stock of bar supplies                                            | 14,220 | 19,890 |

- (iv) At March 31, 2010, the club owned the following assets which are shown at cost. On March 31, 2010, they had been in the ownership of the club for the number of years indicated:

|                   | ₹      | ₹        |
|-------------------|--------|----------|
| Freehold premises | 60,000 | 12 years |
| Furniture         | 10,000 | 12 years |
| Furniture         | 8,000  | 5 years  |
| Investments       | 30,000 | 4 years  |

- (v) The club is providing for the depreciation on freehold premise at 2.5% per annum and on furniture at 10% per annum both rates being calculated on original cost.

#### Accounts from Incomplete Records

12. Mr. Hemant had ₹ 1,65,000 in the bank account on 1.1.2010 when he started his business. He closed his accounts on 31<sup>st</sup> March, 2011. His single entry books (in which he did not maintain any account for the bank) showed his position as follows:

|                | 31.3.2010<br>₹ | 31.3.2011<br>₹ |
|----------------|----------------|----------------|
| Cash in hand   | 1,100          | 1,650          |
| Stock in trade | 10,450         | 15,950         |
| Debtors        | 550            | 1,100          |
| Creditors      | 2,750          | 1,650          |

On and from 1.2.2010, he began drawings ₹ 385 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

|                       | Deposits<br>₹ | Withdrawals<br>₹ |
|-----------------------|---------------|------------------|
| 1.1.2010              | 1,65,000      | -                |
| 1.1.2010 to 31.3.2010 |               | 1,22,650         |
| 1.4.2010 to 31.3.2011 | 1,26,500      | 1,48,500         |

The above withdrawals included payment by cheque of ₹ 1,10,000 and ₹ 33,000 respectively during the period from 1.1.2010 to 31.3.2010 and from 1.4.2010 to

31.3.2011 respectively for the purchase of machineries for the business. The deposits after 1.1.2010 consisted wholly of sale price received from the customers by cheques.

Draw up Mr. Hemant's statement of affairs as at 31.3.2010 and 31.3.2011 respectively and work out his profit or loss for the year ended 31.3.2011.

#### Hire–Purchase Instalment Payment System

13. (a) The following are the particulars from the books of a trader who sells goods of small value on hire-purchase system at 50% profit on cost:

| 2011        |                                                                                                                            | ₹        |
|-------------|----------------------------------------------------------------------------------------------------------------------------|----------|
| January     | Stock with the customers                                                                                                   | 40,500   |
|             | Stock in the shop                                                                                                          | 81,000   |
|             | Installments due                                                                                                           | 22,500   |
| December 31 | Stock in the shop                                                                                                          | 92,250   |
|             | Installments due                                                                                                           | 40,500   |
|             | Goods repossessed (Installments due ₹ 12,000) valued at ₹ 2,250 which had been included in the stock at the end at ₹ 2,250 |          |
|             | Cash received from customers                                                                                               | 2,70,000 |
|             | Goods purchased during the year                                                                                            | 2,70,000 |

Prepare hire-purchase trading account for the year ending December 31, 2011.

#### Investments Accounts

- (b) Ajanta Investment Corporation has done the following transactions in 6% State Government Stock between 1<sup>st</sup> September 2009 and 31<sup>st</sup> July 2011 and all these transactions are cum-interest except those marked as ex-interest. Interest is payable half-yearly on 1<sup>st</sup> February and 1<sup>st</sup> August. The accounting period ends on 30<sup>th</sup> June every year:

1<sup>st</sup> September 2009- Purchased ₹10,000 stock @ ₹ 101.50

1<sup>st</sup> October 2009-Purchased ₹25,000 stock @ ₹ 101

1<sup>st</sup> November 2009-Sold ₹15,000 stock @ ₹ 103.25

1<sup>st</sup> November 2009-Purchased ₹5,000 stock @ ₹ 103

15<sup>th</sup> January 2010-Sold ₹10,000 stock @ ₹ 105 ex-interest

1<sup>st</sup> March 2010-Sold ₹4,000 stock @ ₹ 102.50

15<sup>th</sup> July 2010-Purchased ₹5,000 stock @ ₹ 101.25 ex-interest

1<sup>st</sup> November 2010-Purchased ₹ 5,000 stock @ ₹ 102

15<sup>th</sup> January 2011-Sold ₹15,000 stock @ ₹ 103

1<sup>st</sup> July 2011-Purchased ₹ 2,000 stock @ ₹ 102



Write up the Investment Account in the books of the Corporation, showing the profits and losses on the transactions using the average cost method and also showing the amount of interest for each accounting period duly realized.

### Branch Accounts

14. (a) Using the Stock and Debtors system, find out the profit or loss made at the Raipur Branch in 2011.

|                                                 | ₹      |
|-------------------------------------------------|--------|
| Stock (1 <sup>st</sup> January) invoice price   | 12,000 |
| Debtors (1 <sup>st</sup> January)               | 6,200  |
| Goods sent to the Branch (invoice price)        | 35,000 |
| Goods returned by the Branch (invoice price)    | 10,000 |
| Sales:                                          |        |
| Credit                                          | 21,000 |
| Cash                                            | 20,000 |
| Goods returned by customers                     | 600    |
| Cash received from debtors                      | 19,800 |
| Discount allowed to them                        | 300    |
| Cash sent for expenses at the Branch            | 6,100  |
| Shortage of goods at the Branch (invoice price) | 400    |

Goods are invoiced to the Branch at the selling price so as to show a profit of 30% on invoice price.

### Insurance Claim for Loss of Stock

- (b) The premises of Agni Ltd. caught fire on 22<sup>nd</sup> January 2011, and the stock was damaged. The firm makes account up to 31<sup>st</sup> March each year. On 31<sup>st</sup> March, 2010 the stock at cost was ₹ 13,27,200 as against ₹ 9,62,200 on 31<sup>st</sup> March, 2009.

Purchases from 1<sup>st</sup> April, 2010 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2009 -10 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively. You are given the following further information:

- In July, 2010, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.
- During 2010-11, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 2,000 per week from 1<sup>st</sup> April, 2010 until the clerk was dismissed on 18<sup>th</sup> August, 2010.
- The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire.

## Partnership: Death of a partner

15. (a) The Balance Sheet of X, Y and Z as at 31.12.2010 stood as follows:

| Liabilities                    | ₹               | Assets                            | ₹            | ₹               |
|--------------------------------|-----------------|-----------------------------------|--------------|-----------------|
| Creditors                      | 25,800          | Cash & bank                       |              | 10,000          |
| General reserve                | 8,900           | Debtors                           | 20,000       |                 |
| Investment fluctuation reserve | 2,400           | Less : Provision                  | <u>1,600</u> | 18,400          |
| X's capital A/c                | 59,700          | Stock                             |              | 20,000          |
| Y's capital A/c                | 39,700          | Land & building                   |              | 74,000          |
| Z's capital A/c                | 39,700          | Investments                       |              | 10,000          |
|                                |                 | Goodwill                          |              | 37,800          |
|                                |                 | Life policy (at surrender value): |              |                 |
|                                |                 | X                                 |              | 2,500           |
|                                |                 | Y                                 |              | 2,500           |
|                                |                 | Z                                 |              | <u>1,000</u>    |
|                                | <u>1,76,200</u> |                                   |              | <u>1,76,200</u> |

Z died on 31<sup>st</sup> March, 2011. For the purpose the following adjustments were agreed upon:

- Land and building is appreciated by 50%.
- Investments is valued at 6% less than the cost.
- All debtors (except 20% which are considered as doubtful) are good.
- Stock is reduced to 94%.
- Goodwill is valued at one year's purchase of the average profit of the past five years.
- Z's share of profit to the date of death is calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The book profits of last five years as follows:

2006 - ₹ 23,000, 2007- ₹ 28,000, 2008 - ₹ 18,000, 2009 - ₹ 16,000 and 2010 - ₹ 20,000. The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of ₹ 1,000 is payable every year on 1<sup>st</sup> August.

Give the necessary journal entries and the balance sheet of the reconstituted firm.

**Partnership: Dissolution of a firm**

- (b) X, Y and Z share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct of Y and their balance sheet on that date was as under:

**Balance Sheet as at 31-3-2011**

| Liabilities        |                 | ₹               | Assets            | ₹               |
|--------------------|-----------------|-----------------|-------------------|-----------------|
| Capital Accounts : |                 |                 | Land and Building | 2,00,000        |
| X                  | 3,00,000        |                 | Plants            | 2,00,000        |
| Y                  | 2,00,000        |                 | Sundry Debtors    | 50,000          |
| Z                  | <u>1,00,000</u> | 6,00,000        | Stock             | 1,50,000        |
| Current Accounts:  |                 |                 | Bills receivable: | 50,000          |
| X                  | 50,000          |                 | Cash              | 1,00,000        |
| Y                  | <u>30,000</u>   | 80,000          | Current Account:  |                 |
| Sundry Creditors   |                 | 40,000          | Z                 | 50,000          |
| Bills payable      |                 | 80,000          |                   |                 |
|                    |                 | <u>8,00,000</u> |                   | <u>8,00,000</u> |

The whole business of the firm was sold to Omega Limited, on that day on the following terms:

- (i) Omega Limited will issue the following securities in consideration for transfer of business:

10,000 equity shares @ ₹15 each, 15,000 preference shares @ ₹15 each; and 20,000 debentures @ ₹ 14.725.

- (ii) The agreed value of assets and liabilities of partnership firm are as follows:

Land & Building – ₹ 3,00,000, Plants – ₹ 1,50,000, Sundry Debtors – ₹ 47,500, Stock – ₹ 1,40,000, Bills Receivable – ₹ 50,000, Sundry Creditors – ₹ 38,000 and Bills Payable – ₹ 80,000.

It is mutually decided that preference shares and debentures will be distributed in profit sharing ratio and cash brought in by the partner (if any) will be shared equally by the remaining partners before distribution of equity shares. Equity shares are distributed on residual basis at the end.

Prepare the necessary accounts, to close the books of the firm.

**Accounting in Computerized Environment**

16. “Recently a growing trend has developed for outsourcing the accounting functions to a third party”. Analyse.

**Accounting Standards****AS-1**

17. (a) X Ltd. sold its building to Mini Ltd. for ₹ 60 lakhs on 30.09.2010 and gave possession of the property to Mini Ltd. However, documentation and legal formalities are pending. Due to this, the company has not recorded the sale and has shown the amount received as an advance. The book value of the building is ₹ 25 lakhs as on 31<sup>st</sup> March, 2011. Do you agree with this treatment? If you do not agree, explain the reasons with reference to the accounting standard.

(Hint: Para 16 & 17 of AS 1)

**AS-2**

- (b) Anil Pharma Ltd. ordered 16,000 kg of certain material at ₹160 per unit. The purchase price includes excise duty ₹10 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to ₹ 1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg and consumed 13,600 kg of material. Compute cost of inventory under AS 2 and amount of abnormal loss.

(Hint: Para 7 of AS 2)

**AS-4**

- (c) You are an accountant preparing accounts of A Ltd. as on 31.3.2011. After year end the following events have taken place in April, 2011:
- (i) A fire broke out in the premises damaging, uninsured stock worth ₹ 10 lakhs (Salvage value ₹ 2 lakhs).
  - (ii) A suit against the company's advertisement was filed by a party claiming damage of ₹ 20 lakhs.
  - (iii) Dividend proposed @ 20% on share capital of ₹ 100 lakhs.

Describe, how above will be dealt with in the account of the company for the year ended on 31.3.2011.

(Hint: Para 14-16 of AS 4)

**AS-5**

- (d) The company has to pay delayed cotton clearing charges over and above the negotiated price for taking delayed delivery of cotton from suppliers' godown. Upto 2009-10, the company has regularly included such charges in the valuation of closing stock. This being in the nature of interest the company has decided to exclude it from closing stock valuation for the year 2010-11. This would result into decrease in profit by ₹ 7.60 lakhs. State, how would you deal with the above in the annual accounts of a company for the year ended 31<sup>st</sup> March, 2011?

(Hint: Para 29 of AS 5)

## AS-6

18. (a) An item of machinery was purchased on 1-4-2008 for ₹ 2,00,000. The WDV depreciation rate applicable to the machinery was 15%. The written down value of the machinery as on 31-3-2010 was ₹ 1,44,500. On 1-4-2010, the enterprise decided to change the method from written down value (WDV) to straight line method (SLM). The enterprise decided to write off the book value of ₹ 1,44,500, over the remaining useful life of machinery i.e. 5 years. Out of the total useful life of 7 years, 2 years have already elapsed.

Comment, whether the accounting treatment is correct. If not, give the correct accounting treatment with reasons.

(Hint: Para 15 of AS 6)

## AS-7

- (b) Jain Construction Co. Ltd. undertook a contract on 1<sup>st</sup> January, 2011 to construct a building for ₹ 80 lakhs. The company found on 31<sup>st</sup> March, 2011 that it had already spent ₹ 58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹ 31,50,000.

What amount should be charged to revenue and what amount of contract value to be recognized as turnover in the final accounts for the year ended 31<sup>st</sup> March, 2011 as per provisions of AS 7 (revised)?

(Hint: Para 21 & 35 of AS 7)

## AS-9

- (c) A company is engaged in the business of ship building and ship repair. On completion of the repair work, a work completion certificate is prepared and countersigned by ship owner (customer). Subsequently, invoice is prepared based on the work completion certificate describing the nature of work done together with the rate and the amount. Customer scrutinizes the invoice and any variation is informed to the company. Negotiations take place between the company and the customer. Negotiations may result in a deduction being allowed from the invoiced amount either as a lumpsum or as a percentage of the invoiced amount. The accounting treatment followed by the company is as follows:
- (i) When the invoice is raised, the customer's account is debited and ship repair income account is credited with the invoiced amount.
  - (ii) Deduction, if any, arrived after negotiation is treated as trade discount by debiting the ship repair income account.
  - (iii) At the close of the year, negotiation in respect of certain invoices had not been completed. In such cases, based on past experience, a provision for anticipated loss is created by debiting the Profit and Loss account. The provision is disclosed in Balance Sheet.

Following two aspects are settled in the negotiations:

- (i) Errors in billing arising on account of variation between the quantities as per work completion certificate and invoice and other clerical errors in preparing the invoice.
- (ii) Disagreement between the company and customer about the rate/cost on which prior agreement has not been reached between them.

Comment:

- (i) Whether the accounting treatment of deduction as trade discount is correct? If not, state the correct accounting treatment.
- (ii) Whether the disclosure of the provision for anticipated loss in Balance Sheet is correct. If not, state correct accounting treatment.

(Hint: Para 6 of AS 9 and Para 8 of AS 4)

#### AS-10

- (d) Rajkumar Ltd. purchased a machine on 1<sup>st</sup> January 2006 for ₹ 300 lakhs. The machine was depreciated on straight line basis using a depreciation rate of 10% per annum. On 1-1-2010 the machine was revalued at ₹ 270 lakhs and the same was adopted. What will be the carrying cost of the machinery asset as on 31-12-2011? There is no change in the economic life of the asset.

#### AS-11

19. (a) Aman Ltd. borrowed US \$ 5,00,000 on 31-12-2010 which will be repaid (settled) as on 30-6-2011. Aman Ltd. prepares its financial statements ending on 31-3-2011. Rate of exchange between reporting currency (Rupee) and foreign currency (US \$) on different dates are as under:

31-12-2010     1 US \$ = ₹ 44.00

31-3-2011     1 US \$ = ₹ 44.50

30-6-2011     1 US \$ = ₹ 44.75

- (i) Calculate borrowings in reporting currency to be recognised in the books on above mentioned dates & also show journal entries for the same.
- (ii) If borrowings was repaid (settled) on 28-2-2011 on which date exchange rate was 1 US\$= ₹ 44.20 than what entry should be passed?

(Hint: Para 9, 11 & 13 of AS 11)

#### AS-12

- (b) Viva Ltd. received a specific grant of ₹ 30 lakhs for acquiring the plant of ₹ 150 lakhs during 2007-08 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2010-11, due to non-compliance of

conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 21 lakhs and written down value of plant was ₹ 105 lakhs.

- (i) What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2010-11 in profit and loss account?
- (ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2007-08 assuming plant account showed the balance of ₹ 84 lakhs as on 1.4.2010?

(Hint: Para 21 of AS 21)

### AS-13

- (c) Albert Finance Ltd. has made the following investments:

- (i) Purchased the following equity shares from stock exchange on 1<sup>st</sup> June, 2010:

|         | Cost<br>₹       |
|---------|-----------------|
| Scrip X | 1,80,000        |
| Scrip Y | 50,000          |
| Scrip Z | <u>1,70,000</u> |
|         | <u>4,00,000</u> |

- (ii) Purchased gold of ₹ 3,00,000 on 1<sup>st</sup> April, 2007.
- (iii) Invested in mutual funds at a cost of ₹ 6,00,000 on 31<sup>st</sup> March, 2010.
- (iv) Purchased government securities at a cost of ₹ 5,00,000 on 1<sup>st</sup> April, 2010.

How will you treat these investments as per applicable AS in the books of the company for the year ended on 31<sup>st</sup> March, 2011, if the values of these investments are as follows:

| Shares                | ₹             | ₹        |
|-----------------------|---------------|----------|
| Scrip X               | 1,90,000      |          |
| Scrip Y               | 40,000        |          |
| Scrip Z               | <u>70,000</u> | 3,00,000 |
| Gold                  |               | 5,00,000 |
| Mutual funds          |               | 4,50,000 |
| Government securities |               | 7,00,000 |

Also explain is it possible to off-set depreciation in investment in mutual funds against appreciation of the value of investment in government securities?

(Hint: Para 14, 15 & 17 of AS 13)

## AS-16

- (d) A company capitalizes interest cost of holding investments and adds to cost of investment every year, thereby understating interest cost in profit and loss account. Comment on the accounting treatment done by the company in context of the relevant AS.

(Hint: Para 2 & 3 of AS 16)

## AS-19

20. (a) A Ltd. sold machinery having WDV of ₹ 40 lakhs to B Ltd. for ₹ 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease.

Comment if –

- (a) Sale price of ₹50 lakhs is equal to fair value.
- (b) Fair value is ₹ 60 lakhs.
- (c) Fair value is ₹ 45 lakhs and sale price is ₹ 38 lakhs.
- (d) Fair value is ₹ 40 lakhs and sale price is ₹ 50 lakhs.
- (e) Fair value is ₹ 46 lakhs and sale price is ₹ 50 lakhs
- (f) Fair value is ₹ 35 lakhs and sale price is ₹ 39 lakhs.

(Hint: Para 50 of AS 19)

## AS-20

- (b) (i) Explain the concept of 'weighted average number of equity shares outstanding during the period'. State how would you compute, based on AS-20, the weighted average number of equity shares in the following case:

|                                |                               | No. of shares |
|--------------------------------|-------------------------------|---------------|
| 1 <sup>st</sup> April, 2010    | Balance of equity shares      | 7,20,000      |
| 31 <sup>st</sup> August, 2010  | Equity shares issued for cash | 2,40,000      |
| 1 <sup>st</sup> February, 2011 | Equity shares bought back     | 1,20,000      |
| 31 <sup>st</sup> March, 2011   | Balance of equity shares      | 8,40,000      |

- (ii) Compute adjusted earning per share and basic EPS based on the following information:

|                                                                        |             |
|------------------------------------------------------------------------|-------------|
| Net profit 2009-10                                                     | ₹ 7,20,000  |
| Net profit 2010-11                                                     | ₹ 24,00,000 |
| No. of equity shares outstanding until 31 <sup>st</sup> December, 2010 | 8,00,000    |

Bonus issue on 1<sup>st</sup> January, 2011, 2 equity shares for each equity share outstanding at 31<sup>st</sup> December, 2010.

(Hints: (i) Para 15 & 16 of AS 20; (ii) Para 44 of AS 20)



## AS-26

- (c) Hera Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

| Year | Production in bottles (in lakhs) | Net operating cash flow (₹ in lakhs) |
|------|----------------------------------|--------------------------------------|
| 1    | 300                              | 900                                  |
| 2    | 600                              | 1,800                                |
| 3    | 650                              | 2,300                                |
| 4    | 800                              | 3,200                                |
| 5    | 800                              | 3,200                                |
| 6    | 800                              | 3,200                                |
| 7    | 800                              | 3,200                                |
| 8    | 800                              | 3,200                                |
| 9    | 800                              | 3,200                                |
| 10   | 800                              | 3,200                                |

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method.

(Hint: Para 72 of AS 26)

## AS-29

- (d) Shyam Ltd. (a Public Sector Company) provides consultancy and engineering services to its clients. In the year 2010-11, the Government has set up a commission to decide about the pay revision. The pay will be revised with respect from 1-1-2006 based on the recommendations of the commission. The company makes the provision of ₹ 680 lakhs for pay revision in the financial year 2010-11 on the estimated basis as the report of the commission is yet to come. As per the contracts with the client on cost plus job, the billing is done on the actual payment made to the employees and allocated to jobs based on hours booked by these employees on each job.

The company discloses through notes to accounts

"Salaries and benefits include the provision of ₹ 680 lakhs in respect of pay revision. The amount chargeable from reimbursable jobs will be billed as per the contract when the actual payment is made".

The accountant feels that the company should also book/recognise the income by ₹ 680 lakhs in Profit and Loss Account as per the terms of the contract. Otherwise, it will be the violation of matching concept & understatement of profit.

(Hint: Para 46 of AS 29)

## SUGGESTED ANSWERS/HINTS

1. (a) (i) Average sales per month =  $\frac{7,20,000}{12 \text{ months}} = ₹ 60,000$

| Sales for the month of   |                             | ₹        |
|--------------------------|-----------------------------|----------|
| January, 2011            | (2 x ₹ 60,000)              | 1,20,000 |
| February, 2011           | (1 x ₹ 60,000)              | 60,000   |
| May, 2011                | ( $\frac{1}{4}$ x ₹ 60,000) | 15,000   |
| June, 2011               | ( $\frac{1}{4}$ x ₹ 60,000) | 15,000   |
| July, 2011               | ( $\frac{1}{4}$ x ₹ 60,000) | 15,000   |
| August, 2011             | ( $\frac{1}{4}$ x ₹ 60,000) | 15,000   |
| October, 2011            | (3 x ₹ 60,000)              | 1,80,000 |
| November, 2011           | (3 x ₹ 60,000)              | 1,80,000 |
| Total sales for 8 months |                             | 6,00,000 |

Sales for the remaining 4 months = ₹ 7,20,000 – ₹ 6,00,000  
= ₹ 1,20,000

Average sales for the remaining 4 months =  $\frac{1,20,000}{4} = ₹ 30,000$ .

Sales for pre-incorporation period:

|                |            |
|----------------|------------|
| January, 2011  | ₹ 1,20,000 |
| February, 2011 | ₹ 60,000   |
| March, 2011    | ₹ 30,000   |
|                | ₹ 2,10,000 |

Sales for post-incorporation period = ₹ 7,20,000 – ₹ 2,10,000  
= ₹ 5,10,000

Sales ratio of pre-incorporation to post-incorporation period = 7: 17

(ii) Profit and Loss Account of Fatafat Ltd.  
for the year ended 31.3.2011

| Particulars                              | Pre-incorporation period<br>₹ | Post-incorporation period<br>₹ | Particulars           | Pre-incorporation period<br>₹ | Post-incorporation period<br>₹ |
|------------------------------------------|-------------------------------|--------------------------------|-----------------------|-------------------------------|--------------------------------|
| To Salaries (1:2)                        | 16,000                        | 32,000                         | By Gross Profit (1:3) | 80,000                        | 2,40,000                       |
| To Stationery (1:2)                      | 1,600                         | 3,200                          |                       |                               |                                |
| To Advertisement (1:3)                   | 4,000                         | 12,000                         |                       |                               |                                |
| To Travelling expenses (W.N.3)           | 4,000                         | 8,000                          |                       |                               |                                |
| To Sales promotion expenses (W.N.3)      | 1,200                         | 3,600                          |                       |                               |                                |
| To Misc. trade expenses (1:2)            | 12,600                        | 25,200                         |                       |                               |                                |
| To Rent (office building) (W.N.2)        | 8,000                         | 18,400                         |                       |                               |                                |
| To Electricity charges (1:2)             | 1,400                         | 2,800                          |                       |                               |                                |
| To Director's fee                        | -                             | 11,200                         |                       |                               |                                |
| To Bad debts (1:3)                       | 800                           | 2,400                          |                       |                               |                                |
| To Selling agents commission (1:3)       | 4,000                         | 12,000                         |                       |                               |                                |
| To Audit fee (1:2)                       | 2,000                         | 4,000                          |                       |                               |                                |
| To Debenture interest                    | -                             | 3,000                          |                       |                               |                                |
| To Interest paid to vendor (2:1) (W.N.4) | 2,800                         | 1,400                          |                       |                               |                                |
| To Selling expenses (1:3)                | 6,300                         | 18,900                         |                       |                               |                                |
| To Depreciation on fixed assets (W.N.5)  | 3,000                         | 6,600                          |                       |                               |                                |
| To Capital reserve                       | 12,300                        | -                              |                       |                               |                                |
| To Net profit                            | -                             | 75,300                         |                       |                               |                                |
|                                          | <u>80,000</u>                 | <u>2,40,000</u>                |                       | <u>80,000</u>                 | <u>2,40,000</u>                |

**Working Notes:**

Pre incorporation period = 1<sup>st</sup> April, 2010 to 31<sup>st</sup> July, 2010

i.e. 4 months

**1. Sales ratio**

Let the monthly sales for first 6 months (i.e. from 1.4.2010 to 30.09.2010) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.10 to 31.3.2011)

$$= x + \frac{2}{3}x = \frac{5}{3}x$$

$$\text{Then, sales for next 6 months} = \frac{5}{3}x \times 6 = 10x$$

Total sales for the year = 6x + 10x = 16x

$$\begin{aligned} \text{Monthly sales in the pre incorporation period} &= ₹ 19,20,000/16 \\ &= ₹ 1,20,000 \end{aligned}$$

Sales for pre-incorporation period = ₹ 1,20,000 x 4 = ₹ 4,80,000

Sales for post incorporation period = ₹ 19,20,000 – ₹ 4,80,000  
= ₹ 14,40,000

Sales Ratio = 4,80,000 : 14,40,000 = 1 : 3

**2. Rent**

|                                                 | ₹             | ₹             |
|-------------------------------------------------|---------------|---------------|
| Rent for pre-incorporation period (₹ 2,000 x 4) |               | 8,000 (pre)   |
| Rent for post incorporation period              |               |               |
| August, 2010 & September, 2010 (₹ 2,000 x 2)    | 4,000         |               |
| October, 2010 to March, 2011 (₹ 2,400 x 6)      | <u>14,400</u> | 18,400 (post) |

**3. Travelling expenses**

|                                                           | Pre          | Post          |
|-----------------------------------------------------------|--------------|---------------|
|                                                           | ₹            | ₹             |
| Traveling expenses ₹ 12,000                               |              |               |
| (i.e. ₹ 16,800 – ₹ 4,800) distributed in 1:2 ratio        | 4,000        | 8,000         |
| Sales promotion expenses ₹ 4,800 distributed in 1:3 ratio | <u>1,200</u> | <u>3,600</u>  |
|                                                           | <u>5,200</u> | <u>11,600</u> |

4. Interest paid to vendor till 30<sup>th</sup> September, 2010

|                                                                                                                 | Pre   | Post  |
|-----------------------------------------------------------------------------------------------------------------|-------|-------|
|                                                                                                                 | ₹     | ₹     |
| Interest for pre-incorporation period ( $\frac{4,200}{6} \times 4$ )                                            | 2,800 |       |
| Interest for post incorporation period i.e. for August, 2010 & September, 2010 = ( $\frac{4,200}{6} \times 2$ ) |       | 1,400 |

## 5. Depreciation

|                                                                            | Pre   | Post  |
|----------------------------------------------------------------------------|-------|-------|
|                                                                            | ₹     | ₹     |
| Total depreciation 9,600                                                   |       |       |
| Less: Depreciation exclusively for post incorporation period <u>600</u>    |       | 600   |
| <u>9,000</u>                                                               |       |       |
| Depreciation for pre-incorporation period [ $9,000 \times \frac{4}{12}$ ]  | 3,000 |       |
| Depreciation for post incorporation period [ $9,000 \times \frac{8}{12}$ ] |       | 6,000 |
|                                                                            | 3,000 | 6,600 |

(b)

X Ltd.

Cash Flow Statement for the year ended 31<sup>st</sup> March, 2011

(Using direct method)

|                                                    | ₹'000s         | ₹'000s |
|----------------------------------------------------|----------------|--------|
| <b>Cash flows from operating activities</b>        |                |        |
| Cash receipts from customers                       | 2,800          |        |
| Cash payment to suppliers & employees (refer W.N.) | <u>(2,300)</u> |        |
| Cash generated from operations                     | 500            |        |
| Income tax paid                                    | <u>(250)</u>   |        |
| Net cash from operating activities                 |                | 250    |
| <b>Cash flows from investing activities</b>        |                |        |
| Payment for purchase of fixed assets               | (200)          |        |

|                                             |             |             |
|---------------------------------------------|-------------|-------------|
| Proceeds from sale of fixed assets          | <u>100</u>  |             |
| Net cash used in investing activities       |             | (100)       |
| <i>Cash flows from financing activities</i> |             |             |
| Proceeds from issuance of equity shares     | 300         |             |
| Bank loan repaid                            | (300)       |             |
| Dividend paid                               | <u>(50)</u> |             |
| Net cash used in financing activities       |             | <u>(50)</u> |
| Net increase in cash                        |             | 100         |
| Cash at the beginning of the period         |             | <u>50</u>   |
| Cash at the end of the period               |             | <u>150</u>  |

Working Note:

Cash paid to Suppliers & Employees

|                         | ₹'000s     | ₹'000s |
|-------------------------|------------|--------|
| a. Payment to suppliers | 2,000      |        |
| b. Wages & salaries     | 100        |        |
| c. Overhead expenses    | <u>200</u> | 2,300  |

2. (a) Journal of Kuber Ltd.

|                                                                                                                                                 |     | (₹ in crores) |     |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----|---------------|-----|
|                                                                                                                                                 |     | Dr.           | Cr. |
| 12% Redeemable preference share capital A/c                                                                                                     | Dr. | 75            |     |
| To Bank A/c                                                                                                                                     |     |               | 75  |
| (Being redemption of 12% preference shares pursuant to capital re-organisation)                                                                 |     |               |     |
| Revenue reserves A/c                                                                                                                            | Dr. | 75            |     |
| To Capital redemption reserve A/c                                                                                                               |     |               | 75  |
| (Being amount equal to par value of preference shares redeemed out of profits, transferred to capital redemption reserve A/c)                   |     |               |     |
| Equity share capital A/c                                                                                                                        | Dr. | 5             |     |
| Revenue reserves A/c                                                                                                                            | Dr. | 20            |     |
| To Bank A/c                                                                                                                                     |     |               | 25  |
| (Being buy-back of 50 lakhs equity shares of ₹ 10 each from the members at a price of ₹ 50 per share, premium paid out of revenue reserves A/c) |     |               |     |

|                                                                                                                                   |     |   |   |
|-----------------------------------------------------------------------------------------------------------------------------------|-----|---|---|
| Revenue reserves A/c                                                                                                              | Dr. | 5 |   |
| To Capital redemption reserve A/c                                                                                                 |     |   | 5 |
| (Being transfer to capital redemption reserve, as required by Section 77AA, on buy-back of equity shares out of revenue reserves) |     |   |   |

Kuber Ltd.

## Balance Sheet (after reconstruction)

|    |                                               |          | (₹ in crores) |            |
|----|-----------------------------------------------|----------|---------------|------------|
|    |                                               | Schedule |               |            |
| I  | SOURCES OF FUNDS                              |          |               |            |
|    | (1) Shareholders' funds:                      |          |               |            |
|    | (a) Capital                                   | A        | 20            |            |
|    | (b) Reserves and surplus                      | B        | <u>280</u>    |            |
|    |                                               |          |               | <u>300</u> |
|    | TOTAL                                         |          |               | <u>300</u> |
| II | APPLICATION OF FUNDS                          |          |               |            |
|    | (1) Fixed assets                              |          |               |            |
|    | (a) Gross block                               |          | 100           |            |
|    | (b) Less: Depreciation                        |          | <u>(100)</u>  |            |
|    | (c) Net block                                 |          |               | -          |
|    | (2) Investments (market value : ₹ 400 crores) |          |               | 100        |
|    | (3) Current assets (340 – 75 – 25)            |          | 240           |            |
|    | Less: Current liabilities                     |          | <u>(40)</u>   |            |
|    | Net current assets                            |          |               | <u>200</u> |
|    | TOTAL                                         |          |               | <u>300</u> |

## Schedules to Balance Sheet

|    |                                                                                                              | (₹ in crores) |            |
|----|--------------------------------------------------------------------------------------------------------------|---------------|------------|
| A. | Authorised share capital:                                                                                    |               | <u>100</u> |
|    | Issued, Subscribed and Paid up:                                                                              |               |            |
|    | 200 lakhs equity shares of ₹ 10 each fully paid up                                                           |               | <u>20</u>  |
|    | 50 lakhs Equity Shares of ₹ 10 each have been bought back out of reserves at ₹ 50 per share also             |               |            |
|    | 12% 75 lakhs Redeemable Preference Shares of ₹ 100 each fully paid up, have been redeemed on 1st April, 2011 |               |            |

|     |                                              |             |            |
|-----|----------------------------------------------|-------------|------------|
| B.  | Reserves and surplus                         |             |            |
| (1) | Capital reserve                              |             | 15         |
| (2) | Capital redemption reserve                   |             |            |
|     | As per last account                          | -           |            |
|     | Add: Transfer from revenue reserves (75 + 5) | <u>80</u>   | 80         |
| (3) | Securities premium                           |             | 25         |
| (4) | Revenue reserves                             |             |            |
|     | As per last account                          | 260         |            |
|     | Less: Transfer to capital redemption reserve | <u>(80)</u> |            |
|     |                                              | 180         |            |
|     | Less: Premium paid on buy-back               | <u>(20)</u> | <u>160</u> |
|     |                                              |             | <u>280</u> |

Net asset value of an equity share

|                                                                                  | (₹ in crores) |
|----------------------------------------------------------------------------------|---------------|
| Investments (at market value)                                                    | 400           |
| Net current assets                                                               | <u>200</u>    |
| Net assets available to equity shareholders                                      | <u>600</u>    |
| No. of equity shares = 2 crores                                                  |               |
| Value of an equity share = $\frac{600 \text{ crores}}{2 \text{ crores}} = ₹ 300$ |               |

Note: In the absence of any other information, it has been assumed that shares have been bought back out of free reserves.

(b) Liability of Underwriters (No. of Shares)

|                                                      | Total             | X                 | Y                 | Z                 | T               |
|------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-----------------|
| Gross Liability                                      | 10,00,000         | 3,00,000          | 3,00,000          | 2,00,000          | 2,00,000        |
| Less: Unmarked Applications<br>7,00,000 – 5,80,000 = | <u>(1,20,000)</u> | <u>(36,000)</u>   | <u>(36,000)</u>   | <u>(24,000)</u>   | <u>(24,000)</u> |
| Balance                                              | 8,80,000          | 2,64,000          | 2,64,000          | 1,76,000          | 1,76,000        |
| Less : Marked Application                            | <u>(5,80,000)</u> | <u>(1,90,000)</u> | <u>(1,00,000)</u> | <u>(2,10,000)</u> | <u>(80,000)</u> |
| Balance                                              | 3,00,000          | 74,000            | 1,64,000          | (34,000)          | 96,000          |
| Less: Firm Underwriting (A)                          | <u>(70,000)</u>   | <u>(30,000)</u>   | <u>(20,000)</u>   | <u>(10,000)</u>   | <u>(10,000)</u> |
| Balance                                              | 2,30,000          | 44,000            | 1,44,000          | (44,000)          | 86,000          |
| Adjustment (30: 30: 20)                              | -                 | <u>(16,500)</u>   | <u>(16,500)</u>   | <u>44,000</u>     | <u>(11,000)</u> |



|                                                  |                 |               |                 |               |               |
|--------------------------------------------------|-----------------|---------------|-----------------|---------------|---------------|
| Net Liability (B)                                | <u>2,30,000</u> | <u>27,500</u> | <u>1,27,500</u> | <u>—</u>      | <u>75,000</u> |
| Total Liability including firm underwriting(A+B) | <u>3,00,000</u> | <u>57,500</u> | <u>1,47,500</u> | <u>10,000</u> | <u>85,000</u> |

|   |                               |   | ₹               |
|---|-------------------------------|---|-----------------|
| X | 3,00,000 shares x ₹ 15 x 2.5% | = | 1,12,500        |
| Y | 3,00,000 shares x ₹ 15 x 2.5% | = | 1,12,500        |
| Z | 2,00,000 x ₹ 15 x 2.5%        | = | 75,000          |
| T | 2,00,000 x ₹ 15 x 2.5%        | = | <u>75,000</u>   |
|   | Total                         | = | <u>3,75,000</u> |

3. In the books of A Ltd.

#### Journal Entries

|    | Particulars                                             |           | ₹ | ₹         |
|----|---------------------------------------------------------|-----------|---|-----------|
| 1. | Realisation A/c Dr.                                     | 27,80,000 |   |           |
|    | To Patent rights A/c                                    |           |   | 2,00,000  |
|    | To Land and buildings A/c                               |           |   | 6,00,000  |
|    | To Plant and machinery A/c                              |           |   | 15,50,000 |
|    | To Stock                                                |           |   | 3,50,000  |
|    | To Sundry debtors                                       |           |   | 80,000    |
|    | (Being assets taken over by Shakti Ltd.)                |           |   |           |
| 2. | Sundry creditors A/c Dr.                                | 50,000    |   |           |
|    | To Realisation A/c                                      |           |   | 50,000    |
|    | (Being creditors transferred to Realisation A/c)        |           |   |           |
| 3. | Shakti Ltd. Dr.                                         | 27,95,000 |   |           |
|    | To Realisation A/c                                      |           |   | 27,95,000 |
|    | (Being purchase consideration due)                      |           |   |           |
| 4. | Realisation A/c Dr.                                     | 5,000     |   |           |
|    | To Cash & bank A/c                                      |           |   | 5,000     |
|    | (Being cost of liquidation charged to Realisation A/c ) |           |   |           |
| 5. | Realisation A/c Dr.                                     | 50,000    |   |           |
|    | To Cash & bank A/c                                      |           |   | 50,000    |
|    | (Being creditors dues paid)                             |           |   |           |

|     |                                                                                                                                                                    |                   |                                 |                       |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|---------------------------------|-----------------------|
| 6.  | Shares in Shakti Ltd. (1,80,000 x ₹12.50)<br>Cash & bank A/c<br>To Shakti Ltd.<br>(Being shares received in payment of purchase consideration and balance in cash) | Dr.<br>Dr.        | 22,50,000<br>5,45,000           | 27,95,000             |
| 7.  | Preference share capital A/c<br>To Preference shareholders A/c<br>(Being transfer of preference share capital to preference shareholders account)                  | Dr.               | 5,00,000                        | 5,00,000              |
| 8.  | Equity share capital A/c<br>General reserves A/c<br>Profits and loss A/c<br>To Equity shareholders A/c<br>(Being equity transferred to equity shareholders A/c)    | Dr.<br>Dr.<br>Dr. | 15,00,000<br>8,00,000<br>90,000 | 23,90,000             |
| 9.  | Preference shareholders A/c<br>To Cash & bank A/c<br>(Being preference shareholders paid)                                                                          | Dr.               | 5,00,000                        | 5,00,000              |
| 10. | Realisation A/c (W.N.1)<br>To Equity shareholders A/c<br>(Being transfer of profit on realization to equity shareholders account)                                  | Dr.               | 10,000                          | 10,000                |
| 11. | Equity shareholders A/c<br>To Shares in Shakti Ltd.<br>To Cash & bank ( W.N.2)<br>(Being distribution of shares & cash among the equity shareholders)              | Dr.               | 24,00,000                       | 22,50,000<br>1,50,000 |

## Shakti Limited

Balance Sheet as on 1<sup>st</sup> January, 2012

| Liabilities                                                                                                        | ₹        | Assets                                                                   | ₹                              |
|--------------------------------------------------------------------------------------------------------------------|----------|--------------------------------------------------------------------------|--------------------------------|
| Authorised share capital:<br>50,000, 5% Cumulative preference<br>shares of ₹ 10 each<br>2,50,000, Equity shares of | 5,00,000 | Fixed Assets:<br>Goodwill (W.N.3)<br>Patent rights<br>Land and buildings | 30,000<br>2,00,000<br>6,00,000 |

|                                                                                                                                          |                  |                                     |                  |
|------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------------------|------------------|
| ₹ 10 each                                                                                                                                | <u>25,00,000</u> | Plant and machinery                 | 15,50,000        |
|                                                                                                                                          | <u>30,00,000</u> | Motor vehicles                      | 40,000           |
| Issued and subscribed :                                                                                                                  |                  | Furniture                           | 25,000           |
| 50,000, 5% Cumulative preference shares of ₹ 10 each                                                                                     | 5,00,000         | Current assets, loans and advances: |                  |
| 2,40,000 Equity shares of ₹ 10 each fully paid (Out of above, 2,10,000 equity shares have been issued for consideration other than cash) | 24,00,000        | Stock (3,50,000+2,39,000)           | 5,89,000         |
|                                                                                                                                          |                  | Sundry debtors (80,000+62,000)      | 1,42,000         |
|                                                                                                                                          |                  | Cash (W.N.4)                        | 2,82,250         |
| Reserve and surplus:                                                                                                                     |                  |                                     |                  |
| Securities premium [(2,40,000 x ₹ 2.50) – ₹ 18,000- ₹ 23,750]*                                                                           | <u>5,58,250</u>  |                                     |                  |
|                                                                                                                                          | <u>34,58,250</u> |                                     | <u>34,58,250</u> |

## Working Notes:

## 1. Realisation A/c of A Ltd.

|                            | ₹                |                     | ₹                |
|----------------------------|------------------|---------------------|------------------|
| To Patent right            | 2,00,000         | By Sundry creditors | 50,000           |
| To Land & building         | 6,00,000         | By Shakti Ltd.      | 27,95,000        |
| To Plant & machinery       | 15,50,000        |                     |                  |
| To Stock                   | 3,50,000         |                     |                  |
| To Debtors                 | 80,000           |                     |                  |
| To Cash                    |                  |                     |                  |
| Creditors                  | 50,000           |                     |                  |
| Expenses                   | 5,000            |                     |                  |
| To Equity shareholders A/c | 10,000           |                     |                  |
|                            | <u>28,45,000</u> |                     | <u>28,45,000</u> |

\* As per section 78 of the Companies Act, 1956, Securities premium has been utilized in writing off the preliminary expense and commission on issue of shares of the company.

## 2. Cash Account of A Ltd.

| Particulars    | ₹               | Particulars                           | ₹               |
|----------------|-----------------|---------------------------------------|-----------------|
| To Balance b/d | 1,60,000        | By Realisation A/c (Liquidation exp.) | 5,000           |
| To Shakti Ltd. | 5,45,000        | By Realisation A/c                    | 50,000          |
|                |                 | By Preference shareholders            | 5,00,000        |
|                |                 | By Equity shareholders (Bal. fig.)    | <u>1,50,000</u> |
|                | <u>7,05,000</u> |                                       | <u>7,05,000</u> |

## 3. Calculation of Goodwill/Capital Reserve

|                                                                      | ₹                  |
|----------------------------------------------------------------------|--------------------|
| Purchase consideration                                               | 27,95,000          |
| Less: Net assets of A. Ltd. (₹ 29,40,000 – ₹ 1,60,000)               | <u>(27,80,000)</u> |
| Goodwill                                                             | <u>15,000</u>      |
| Purchase consideration                                               | 3,81,000           |
| Less: Net assets of B Ltd (₹ 4,53,000- ₹ 70,000- ₹ 17,000)           | <u>(3,66,000)</u>  |
| Goodwill                                                             | <u>15,000</u>      |
| Thus, total goodwill will be = ₹ 15,000 (A Ltd.) + ₹ 15,000 (B Ltd.) | 30,000             |

## 4. Cash Account of Shakti Ltd.

|                                                                     | ₹               |                            | ₹               |
|---------------------------------------------------------------------|-----------------|----------------------------|-----------------|
| To 5% Cumulative preference share application and allotment account | 5,00,000        | By A Ltd.                  | 5,45,000        |
| To Equity share applications and allotment account                  | 3,75,000        | By B Ltd.                  | 6,000           |
|                                                                     |                 | By Preliminary expenses    | 18,000          |
|                                                                     |                 | By Underwriting commission | 23,750          |
|                                                                     |                 | By Balance c/d (Bal.fig.)  | <u>2,82,250</u> |
|                                                                     | <u>8,75,000</u> |                            | <u>8,75,000</u> |

## 4. Journal Entries

|    |                                                                                                                           | ₹         | ₹        |
|----|---------------------------------------------------------------------------------------------------------------------------|-----------|----------|
| 1. | Equity share capital A/c (₹ 10) Dr.                                                                                       | 10,00,000 |          |
|    | To Equity share capital A/c (₹ 2.50)                                                                                      |           | 2,50,000 |
|    | To Capital reduction A/c (₹ 7.50)                                                                                         |           | 7,50,000 |
|    | (Being the amount transferred @ ₹ 7.50 per share to Capital Reduction A/c as per the scheme of reconstruction dated.....) |           |          |

|    |                                                                                                                                                                                                                                                                                |            |                  |                            |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------------|----------------------------|
| 2. | Bank A/c<br>To Equity share capital A/c<br>To Securities premium A/c<br>(Being amount received from existing shareholders for subscribing 50,000 new equity shares @ ₹ 2.50 each at a premium of ₹ 1.50 per share as per scheme of reconstruction dated .... )                 | Dr.        | 2,00,000         | 1,25,000<br>75,000         |
| 3. | 10% Preference share capital A/c<br>To 15% Preference share capital A/c<br>To Equity share capital A/c<br>(Being conversion of 10% Preference share capital to 30,000 15% Preference shares of ₹ 10 each and 40,000 equity shares of ₹ 2.50 each as per reconstruction scheme) | Dr.        | 4,00,000         | 3,00,000<br>1,00,000       |
| 4. | Interest payable on debentures A/c<br>To Equity share capital A/c<br>To Capital reduction A/c<br>(Being share capital issued in lieu of interest payable on debentures as per reconstruction scheme)                                                                           | Dr.        | 36,000           | 25,000<br>11,000           |
| 5. | 12% Debentures A/c<br>To 14% Debentures A/c<br>(Being conversion of 12% debentures to 14% debentures as per reconstruction scheme)                                                                                                                                             | Dr.        | 3,00,000         | 3,00,000                   |
| 6. | Bank A/c<br>Discount on issue of debentures A/c<br>To 14% Debentures A/c<br>(Being issue of new debentures of 14% as per scheme at a discount of ₹ 10 per debenture)                                                                                                           | Dr.<br>Dr. | 90,000<br>10,000 | 1,00,000                   |
| 7. | Loan from Directors A/c<br>To Equity share capital A/c<br>To Securities premium A/c<br>To Capital reduction A/c<br>(Being issue of equity share capital in cancellation of loan from directors as per reconstruction scheme)                                                   | Dr.        | 1,00,000         | 25,000<br>35,000<br>40,000 |

|     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |     |          |                                                                                            |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----------|--------------------------------------------------------------------------------------------|
| 8.  | Bank A/c<br>To Investment A/c<br>To Capital reduction A/c<br>(Being amount realized from the sale of investment as per reconstruction scheme)                                                                                                                                                                                                                                                                                                                                                                                          | Dr. | 3,00,000 | 2,25,000<br>75,000                                                                         |
| 9   | Bank Overdraft A/c<br>To Bank A/c<br>(Being the amount paid to creditors as per reconstruction scheme)                                                                                                                                                                                                                                                                                                                                                                                                                                 | Dr. | 1,50,000 | 1,50,000                                                                                   |
| 10. | Creditors A/c<br>To Bank A/c<br>(Being the amount paid to creditors as per reconstruction scheme)                                                                                                                                                                                                                                                                                                                                                                                                                                      | Dr. | 1,59,000 | 1,59,000                                                                                   |
| 11. | Capital Reduction A/c<br>To Goodwill A/c<br>To Profit & loss A/c<br>To Discount on issue of debentures A/c<br>To Land A/c (4,00,000 – 3,20,000)<br>To Building A/c (3,75,000–75,000-2,50,000)<br>To Machinery A/c<br>(2,20,000–80,000-1,00,000)<br>To Stock A/c (3,60,000 – 3,20,000)<br>To Debtors A/c (2,00,000 – 1,80,000)<br>To Capital reserve A/c (Bal. fig.)<br>(Being capital reduction account utilised for writing off all intangible assets & for adjusting the assets to its fair values as per the reconstruction scheme) | Dr. | 8,76,000 | 3,00,000<br>3,15,000<br>10,000<br>80,000<br>50,000<br>40,000<br>40,000<br>20,000<br>21,000 |

## Balance Sheet (And Reduced)

| Liabilities                                                        | ₹        | ₹ | Assets                                             | ₹                                               | ₹                    |
|--------------------------------------------------------------------|----------|---|----------------------------------------------------|-------------------------------------------------|----------------------|
| Authorised share capital:<br>2,50,000, Equity shares @ ₹ 2.50 each | 6,25,000 |   | Fixed assets:<br><br>Land<br>Building<br>Machinery | <br><br>3,20,000<br>2,50,000<br><u>1,00,000</u> | <br><br><br>6,70,000 |

|                                                               |                 |                  |                                   |                 |                  |
|---------------------------------------------------------------|-----------------|------------------|-----------------------------------|-----------------|------------------|
| 50,000, 15% Preference shares of ₹ 10 each                    | <u>5,00,000</u> | <u>11,25,000</u> | Current assets, loans & advances: |                 |                  |
| Issued, subscribed and paid up:                               |                 |                  | Stock                             | 3,20,000        |                  |
| 2,10,000, Equity shares of ₹ 2.50 each fully called & paid up | 5,25,000        |                  | Debtors                           | 1,80,000        |                  |
| 30,000, 15% Preference shares of ₹ 10 each                    | <u>3,00,000</u> | 8,25,000         | Cash in hand                      | 5,000           |                  |
| Reserves & surplus :                                          |                 |                  | Cash at bank (Refer W.N)          | <u>2,81,000</u> | 7,86,000         |
| Capital reserve                                               | 21,000          |                  |                                   |                 |                  |
| Securities premium                                            | <u>1,10,000</u> | 1,31,000         |                                   |                 |                  |
| Secured loans :                                               |                 |                  |                                   |                 |                  |
| 14% Debentures                                                |                 | 4,00,000         |                                   |                 |                  |
| Current liabilities & provisions :                            |                 |                  |                                   |                 |                  |
| Sundry creditors (2,59,000–1,59,000)                          |                 | 1,00,000         |                                   |                 |                  |
|                                                               |                 | <u>14,56,000</u> |                                   |                 | <u>14,56,000</u> |

Working Note:

Calculation of Cash at Bank

|                                 | ₹                 |
|---------------------------------|-------------------|
| Issue of equity shares          | 2,00,000          |
| Sales of investments            | 3,00,000          |
| Issue of debentures             | <u>90,000</u>     |
|                                 | 5,90,000          |
| Less: Payment to creditors      | (1,59,000)        |
| Less: Payment of bank overdraft | <u>(1,50,000)</u> |
|                                 | <u>2,81,000</u>   |

## 5. Liquidator's Final Statement of Receipts and Payments A/c

|                                                          | ₹               | ₹               |                                               | ₹               |
|----------------------------------------------------------|-----------------|-----------------|-----------------------------------------------|-----------------|
| To Cash in hand                                          |                 | 40,000          | By Liquidator's remuneration and expenses     | 5,000           |
| To Assets realised:                                      |                 |                 | By Trade creditors                            | 3,50,000        |
| Fixed assets                                             | 1,68,000        |                 | By Preference shareholders                    | 1,00,000        |
| Stock                                                    |                 |                 | By Equity shareholders @ ₹ 10 on 2,000 shares | 20,000          |
| (1,10,000 – 1,00,000)                                    | 10,000          |                 |                                               |                 |
| Book debts                                               | <u>2,30,000</u> |                 |                                               |                 |
|                                                          |                 | 4,08,000        |                                               |                 |
| To Cash - proceeds of call on 1,800 equity shares @ ₹ 15 |                 | <u>27,000</u>   |                                               |                 |
|                                                          |                 | <u>4,75,000</u> |                                               | <u>4,75,000</u> |

Working Note:

Return per equity share

|                                                                                | ₹                 |
|--------------------------------------------------------------------------------|-------------------|
| Cash available before paying preference shareholders (₹ 4,48,000 – ₹ 3,55,000) | 93,000            |
| Add: Notional calls 1,800 shares (2,000-200) × ₹ 25                            | <u>45,000</u>     |
|                                                                                | 1,38,000          |
| Less: Preference share capital                                                 | <u>(1,00,000)</u> |
| Available for equity shareholders                                              | <u>38,000</u>     |
| Return per share = $\frac{₹ 38,000}{3,800 (4,000 - 200)} = ₹ 10$               |                   |
| and Loss per Equity Share ₹ (100-10) = ₹ 90                                    |                   |

Calls to be made @ ₹ 15 per share (₹ 90-75) on 1,800 shares.

## 6. Unexpired discount 31.12.2011 to be calculated as under:

|                                 |                                                          | ₹     |
|---------------------------------|----------------------------------------------------------|-------|
| On ₹ 50,000 @ 5% for 31 days    | $₹ 50,000 \times \frac{5}{100} \times \frac{31}{366}$    | 212   |
| On ₹ 4,00,000 @ 5% for 121 days | $₹ 4,00,000 \times \frac{5}{100} \times \frac{121}{366}$ | 6,612 |



|                              |                                                       |       |
|------------------------------|-------------------------------------------------------|-------|
| On ₹ 30,000 @ 5% for 63 days | $₹ 30,000 \times \frac{5}{100} \times \frac{63}{366}$ | 258   |
|                              |                                                       | 7,082 |

Note:- Year 2012 is a leap year.

In the books of Unique Bank Ltd.

### Journal Entries

| Date            | Particulars                                                                                                                                                                                                 |            | Dr.               | Cr.               |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------------|-------------------|
|                 |                                                                                                                                                                                                             |            | ₹                 | ₹                 |
| 2011,<br>1 July | Interest and discount A/c<br>To Rebate on bills discounted A/c<br>(Proportionate discount on unexpired bills adjusted at the end of the year)                                                               | Dr.        | 7,082             | 7,082             |
| Dec. 31         | Customers' liability for acceptance A/c<br>Customers' current A/c<br>To B/P A/c (acceptance on behalf of customer)<br>To Commission A/c<br>(Bills accepted on customers' behalf and earned commission @ 2%) | Dr.<br>Dr. | 2,00,000<br>4,000 | 2,00,000<br>4,000 |
| Dec. 31         | Loans and advances A/c<br>To Cash A/c<br>(Amount advanced on security of bills and goods on key-loan basis)                                                                                                 | Dr.        | 5,00,000          | 5,00,000          |

### Treatment in Profit and Loss Account and Balance Sheet

- Discount earned (up to 31.12.2011) will be credited to 'P & L A/c' and unexpired discount of ₹ 7,082 will, be credited to 'Rebate on Bills Discounted A/c,' which will appear on the liability side of the Balance Sheet.
- Commission earned will be credited to P & L A/c whereas customers' liability for acceptance will appear on the asset side of the Balance Sheet in Schedule (9) and Acceptance on behalf of customer will appear in the liability side in Schedule(5) as contra items, and
- Loans and advances will appear in the assets side of the Balance Sheet.

7.

Form B – RA (Prescribed by IRDA)

Great General Insurance Co. Ltd

Revenue Account for the year ended 31<sup>st</sup> March, 2011

Fire and Marine Insurance Businesses

|                                                  | Schedule | Fire<br>Current<br>Year | Marine<br>Current<br>Year |
|--------------------------------------------------|----------|-------------------------|---------------------------|
|                                                  |          | ₹                       | ₹                         |
| Premiums earned (net)                            | 1        | 4,27,500                | 1,40,000                  |
| Interest, Dividends and Rent – Gross             |          | —                       | —                         |
| Double Income Tax refund                         |          | —                       | —                         |
| Profit on sale of motor car                      |          | —                       | —                         |
| Total (A)                                        |          | <u>4,27,500</u>         | <u>1,40,000</u>           |
| Claims incurred (net)                            | 2        | 82,000                  | 88,000                    |
| Commission                                       | 3        | 40,000                  | 20,000                    |
| Operating expenses related to Insurance business | 4        | 70,000                  | 50,000                    |
| Bad debts                                        |          | —                       | —                         |
| Indian and Foreign taxes                         |          | —                       | —                         |
| Total (B)                                        |          | <u>1,92,000</u>         | <u>1,58,000</u>           |
| Profit from Marine Insurance business (A-B)      |          | 2,35,500                | (18,000)                  |

Schedules forming part of Revenue Account

Schedule –1

| Premiums earned (net)                            | Fire Current<br>Year | Marine Current<br>Year |
|--------------------------------------------------|----------------------|------------------------|
|                                                  | ₹                    | ₹                      |
| Premiums from direct business written            | 4,80,000             | 3,50,000               |
| Less: Premium on reinsurance ceded               | <u>(25,000)</u>      | <u>(15,000)</u>        |
| Total Premium earned                             | 4,55,000             | 3,35,000               |
| Less: Change in provision for unexpired risk     | <u>(27,500)</u>      | <u>(1,95,000)</u>      |
|                                                  | <u>4,27,500</u>      | <u>1,40,000</u>        |
| Schedule – 2                                     |                      |                        |
| Claims incurred (net)                            | 82,000               | 88,000                 |
| Schedule – 4                                     |                      |                        |
| Operating expenses related to insurance business |                      |                        |
| Expenses of Management                           | 70,000               | 50,000                 |

## Form B-PL

Great General Insurance Co. Ltd.

Profit and Loss Account for the year 31<sup>st</sup> March, 2011

| <i>Particulars</i>                  | <i>Schedule</i> | <i>Current Year</i> | <i>Previous Year</i> |
|-------------------------------------|-----------------|---------------------|----------------------|
|                                     |                 | ₹                   | ₹                    |
| Operating Profit/(Loss)             |                 |                     |                      |
| (a) Fire Insurance                  |                 | 2,35,500            |                      |
| (b) Marine Insurance                |                 | (18,000)            |                      |
| (c) Miscellaneous Insurance         |                 | —                   |                      |
| Income From Investments             |                 |                     |                      |
| (a) Interest, Dividend & Rent–Gross |                 | 1,29,000            |                      |
| (b) Profit on sale of investments   |                 |                     |                      |
| Less : Loss on sale of investments  |                 |                     |                      |
| Other Income (To be specified)      |                 |                     |                      |
| Total (A)                           |                 | <u>3,46,500</u>     |                      |
| Provisions (Other than taxation)    |                 | —                   |                      |
| Depreciation                        |                 | 9,000               |                      |
| Other Expenses –Director's Fee      |                 | <u>80,000</u>       |                      |
| Total (B)                           |                 | <u>89,000</u>       |                      |
| Profit Before Tax                   |                 | 2,57,500            |                      |
| Provision for Taxation              |                 | <u>99,138</u>       |                      |
| Profit After Tax                    |                 | <u>1,58,362</u>     |                      |

## Working Notes:

|    |                                                   | <i>Fire</i>     | <i>Marine</i>  |
|----|---------------------------------------------------|-----------------|----------------|
|    |                                                   | ₹               | ₹              |
| 1. | Claims under policies less reinsurance            |                 |                |
|    | Claims paid during the year                       | 1,00,000        | 80,000         |
|    | Add: Outstanding on 31 <sup>st</sup> March, 2011  | <u>10,000</u>   | <u>15,000</u>  |
|    |                                                   | 1,10,000        | 95,000         |
|    | Less : Outstanding on 1 <sup>st</sup> April, 2010 | <u>(28,000)</u> | <u>(7,000)</u> |
|    |                                                   | <u>82,000</u>   | <u>88,000</u>  |

|    |                                                  |                 |                 |
|----|--------------------------------------------------|-----------------|-----------------|
| 2. | Expenses of management                           |                 |                 |
|    | Expenses paid during the year                    | 60,000          | 45,000          |
|    | Add: Outstanding on 31 <sup>st</sup> March, 2011 | <u>10,000</u>   | <u>5,000</u>    |
|    |                                                  | <u>70,000</u>   | <u>50,000</u>   |
| 3. | Premiums less reinsurance                        |                 |                 |
|    | Premiums received during the year                | 4,50,000        | 3,30,000        |
|    | Add: Outstanding on 31 <sup>st</sup> March, 2011 | <u>30,000</u>   | <u>20,000</u>   |
|    |                                                  | 4,80,000        | 3,50,000        |
|    | Less : Reinsurance premiums                      | <u>(25,000)</u> | <u>(15,000)</u> |
|    |                                                  | <u>4,55,000</u> | <u>3,35,000</u> |

4. Reserve for unexpired risks is 50% of net premium for fire insurance and 100% of net premium for marine insurance.

5. Provision for taxation account

|           |                             | ₹        |           |                | ₹        |
|-----------|-----------------------------|----------|-----------|----------------|----------|
| 31.3.2011 | To Bank A/c<br>(taxes paid) | 60,000   | 1.4.2010  | By Balance b/d | 85,000   |
| 31.3.2011 | To Balance c/d              | 1,24,138 | 31.3.2011 | By P & L A/c   | 99,138   |
|           |                             | 1,84,138 |           |                | 1,84,138 |

8. Electric Supply Ltd.

Journal Entries

|                                                                                                       |     | Dr.       | Cr.       |
|-------------------------------------------------------------------------------------------------------|-----|-----------|-----------|
|                                                                                                       |     | ₹         | ₹         |
| New Main Account                                                                                      | Dr. | 20,95,000 |           |
| Replacement Account                                                                                   | Dr. | 19,05,000 |           |
| To Bank Account                                                                                       |     |           | 40,00,000 |
| (Being current cost of replacement charged to replacement account and the balance amount capitalised) |     |           |           |
| New Main Account                                                                                      | Dr. | 2,00,000  |           |
| To Replacement Account                                                                                |     |           | 2,00,000  |
| (Being the value of motors salvaged from old main used in the reconstruction of main)                 |     |           |           |

|                                                                                                                                  |     |           |           |
|----------------------------------------------------------------------------------------------------------------------------------|-----|-----------|-----------|
| Bank Account<br>To Replacement Account<br>(Being the amount realised from sale of old materials credited to replacement account) | Dr. | 70,000    | 70,000    |
| Revenue Account<br>To Replacement Account<br>(Being the net current cost of replacement transferred to revenue account)          | Dr. | 16,35,000 | 16,35,000 |

**Working Notes:****1. Current cost of replacement**

|                                                                                                      | Cost of existing main | Increase in cost |          | Current cost     |
|------------------------------------------------------------------------------------------------------|-----------------------|------------------|----------|------------------|
|                                                                                                      |                       | Rate             | Amount   |                  |
|                                                                                                      | ₹                     |                  | ₹        | ₹                |
| Materials ( $3/5 \times ₹ 15$ lacs)                                                                  | 9,00,000              | 25%              | 2,25,000 | 11,25,000        |
| Labour ( $2/5 \times ₹ 15$ lacs)                                                                     | 6,00,000              | 30%              | 1,80,000 | <u>7,80,000</u>  |
| Estimated current cost for replacement of present main (amount to be charged to replacement account) |                       |                  |          | <u>19,05,000</u> |

**2. Additional cost of reconstruction of main (to be capitalised)**

|                                                                           | ₹                  |
|---------------------------------------------------------------------------|--------------------|
| Cash cost of re-building new main                                         | 40,00,000          |
| Less: Estimated current cost for replacement of existing old main         | <u>(19,05,000)</u> |
| Additional cost in new main to be capitalised (excluding old motors used) | <u>20,95,000</u>   |

**3. Replacement Account**

|             | ₹                |                    | ₹                |
|-------------|------------------|--------------------|------------------|
| To Bank A/c | 19,05,000        | By New Main A/c    | 2,00,000         |
|             |                  | By Bank A/c        | 70,000           |
|             |                  | By Replacement A/c |                  |
|             |                  | Balancing figure   | <u>16,35,000</u> |
|             | <u>19,05,000</u> |                    | <u>19,05,000</u> |

## 9. (a) Calculation of number of days from base date

| Transaction date | Due date  | Amount<br>₹   | No. of days from Base date (Base date 19.6.2011) | Product         |
|------------------|-----------|---------------|--------------------------------------------------|-----------------|
| 8.3.2011         | 11.7.2011 | 4,000         | 22                                               | 88,000          |
| 16.3.2011        | 19.6.2011 | 5,000         | 0                                                | 0               |
| 7.4.2011         | 10.9.2011 | 6,000         | 83                                               | 4,98,000        |
| 17.5.2011        | 20.8.2011 | <u>5,000</u>  | 62                                               | <u>3,10,000</u> |
|                  |           | <u>20,000</u> |                                                  | <u>8,96,000</u> |

$$\begin{aligned}
 \text{Average due date} &= \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}} \\
 &= 19.6.2011 + ₹ 8,96,000 / ₹ 20,000 \\
 &= 19.6.2011 + 44.8 \text{ days (or 45 days approximately)} = 3.8.2011
 \end{aligned}$$

Mehnaaz wants to earn interest of ₹ 150.

The yearly interest is ₹ 20,000 × 18% = ₹ 3,600.

Assume that days corresponding to interest of ₹ 150 are Y.

Then, 3,600 × Y/365 = ₹ 150

or Y = 150 × 365/3,600 = 15.2 days or 15 days (Approx.)

Hence, if Mehnaaz wants to save ₹ 150 by way of interest, she should prepone the payment of amount involved by 15 days from the Average Due Date. Hence, she should make the payment on 19.7.2011 (i.e. 03.08.2011 – 15 days).

## (b)

In the books of Sunil

Rohan in Account Current with Sunil

as on 30<sup>th</sup> June, 2011

| Date<br>2011 | Particulars            | Amount<br>₹ | Days | Interest<br>@ 10%<br>₹ | Date<br>2011 | Particulars                        | Amount<br>₹ | Days | Interest<br>@ 10%<br>₹ |
|--------------|------------------------|-------------|------|------------------------|--------------|------------------------------------|-------------|------|------------------------|
| Feb. 16      | To Sales               | 6,480.00    | 134  | 237.90                 | Jan. 1       | By Balance b/d                     | 3,010.00    | 181  | 149.26                 |
| Mar. 24      | To Sales               | 3,560.00    | 98   | 95.58                  | Jan. 7       | By Purchases                       | 4,430.00    | 174  | 211.18                 |
| June 22      | To Sales               | 2,280.00    | 8    | 5.00                   | Feb 18       | By Returns inward                  | 560.00      | 132  | 20.25                  |
| June 30      | To Balance of interest |             |      | 107.08                 | Apr. 22      | By B/R (maturing on 25 July, 2011) | 1,500.00    | (25) | (10.27)*               |

|         |                |           |  |        |         |                |           |    |        |
|---------|----------------|-----------|--|--------|---------|----------------|-----------|----|--------|
| June 30 | To Balance c/d | 2,497.08  |  |        | Apr. 29 | By Cash        | 2,500.00  | 62 | 42.47  |
|         |                |           |  |        | May 17  | By Purchases   | 2,710.00  | 44 | 32.67  |
|         |                |           |  |        | June 30 | By Interest    | 107.08    |    |        |
|         |                | 14,817.08 |  | 445.56 |         |                | 14,817.08 |    | 445.56 |
|         |                |           |  |        | July 1  | By Balance b/d | 2,497.08  |    |        |

\* Interest on amount of Bill receivable maturing on 25<sup>th</sup> July, 2011 is a red ink interest.

Credit for the B/R is given on the date when it is received, but the amount will be received only on its maturity. Hence, the interest for the period for which the bill is to run after accounting period is shown as negative figure.

10. **Total Debtors Account**

| 2011                           | Particulars                                   | ₹      | 2011     | Particulars                                 | ₹      |
|--------------------------------|-----------------------------------------------|--------|----------|---------------------------------------------|--------|
| April 1                        | To Balance b/d                                | 40,000 | April 1  | By Balance b/d                              | 600    |
| April 30                       | To Sales (Credit)                             | 38,000 | April 30 | By Cash                                     | 28,200 |
|                                | To Total creditors (endorsed B/R dishonoured) | 600    |          | By Discount                                 | 1,800  |
|                                | To B/R (Dishonoured)                          | 800    |          | By Bills receivable                         | 6,000  |
|                                | To Interest                                   | 60     |          | By Total creditors (Transfer)               | 1,200  |
|                                | To Balance c/d                                | 900    |          | By Balance c/d                              | 42,560 |
|                                |                                               | 80,360 |          |                                             | 80,360 |
| <b>Total Creditors Account</b> |                                               |        |          |                                             |        |
| 2011                           | Particulars                                   | ₹      | 2011     | Particulars                                 | ₹      |
| April 1                        | To Balance b/d                                | 400    | April 1  | By Balance b/d                              | 30,000 |
| April 30                       | To Cash                                       | 17,000 | April 30 | By Purchases (Credit)                       | 16,000 |
|                                | To Discount received                          | 1,000  |          | By Bills payable (withdrawn)                | 1,000  |
|                                | To Bills payable                              | 4,000  |          | By Interest                                 | 40     |
|                                | To Bills receivables (endorsed)               | 1,600  |          | By Total debtors (endorsed B/R dishonoured) | 600    |
|                                | To Total debtors (Transfer)                   | 1,200  |          | By Balance c/d                              | 700    |
|                                | To Purchase returns                           | 1,400  |          |                                             |        |
|                                | To Balance c/d                                | 21,740 |          |                                             |        |
|                                |                                               | 48,340 |          |                                             | 48,340 |

## Notes:

1. B/R discounted, Cash purchases and Cash sales will not be shown in the Total Debtors & Creditors accounts.
2. Endorsed B/R dishonoured and transfers will be shown in both the Total Debtors & Creditors accounts.

11.

## Bar Trading Account

for the year ending on 31<sup>st</sup> March, 2011

| Particulars                                     | ₹            | ₹               | Particulars            | ₹               |
|-------------------------------------------------|--------------|-----------------|------------------------|-----------------|
| To Bar stock (opening)                          |              | 14,220          | By Bar sales           | 1,54,290        |
| To Bar purchases                                |              | 1,35,690        | By Bar stock (closing) | 19,890          |
| To Wages                                        | 10,990       |                 |                        |                 |
| Less: O/s for 09-10                             | <u>(210)</u> |                 |                        |                 |
|                                                 | 10,780       |                 |                        |                 |
| Add: O/s for 10-11                              | <u>230</u>   | 11,010          |                        |                 |
| To Bar profit t/f to income and expenditure A/c |              | <u>13,260</u>   |                        |                 |
|                                                 |              | <u>1,74,180</u> |                        | <u>1,74,180</u> |

## Income and Expenditure Account

for the year ending on 31<sup>st</sup> March, 2011

| Expenditure                | ₹            | ₹      | Income                                    | ₹            |
|----------------------------|--------------|--------|-------------------------------------------|--------------|
| To Salaries and Wages      | 13,650       |        | By Subscriptions                          | 36,680       |
| Less: O/s of 09-10         | (330)        |        | Less: O/s of 09-10                        | (790)        |
| Add: O/s of 10-11          | <u>410</u>   | 13,730 | Add: O/s of 10-11                         | 980          |
| To Lighting & Heating      | 3,720        |        | Add: Adv. of 09-10                        | 140          |
| Less: O/s of 09-10         | (310)        |        | Less: Adv. of 10-11                       | <u>(260)</u> |
| Add: O/s of 10-11          | <u>440</u>   |        | By Room Hire                              | 1,460        |
|                            | 3,850        |        | By Income from investments                | 3,150        |
| Add: Opening stock (coal)  | 400          |        | By Bar Trading A/c [Profit from Bar Room] | 13,260       |
| Less: Closing stock (coal) | <u>(570)</u> | 3,680  |                                           |              |
| To Rates & Insurance       | 2,870        |        |                                           |              |
| Add: Prepaid of 09-10      | 620          |        |                                           |              |
| Less: Prepaid of 10-11     | <u>(730)</u> | 2,760  |                                           |              |
| To Miscellaneous Expenses  | 3,030        |        |                                           |              |



|                                      |              |               |  |               |
|--------------------------------------|--------------|---------------|--|---------------|
| Less: O/s of 09-10                   | <u>(90)</u>  |               |  |               |
|                                      | 2,940        |               |  |               |
| Add: O/s of 10-11                    | <u>530</u>   | 3,470         |  |               |
| To Depreciation:                     |              |               |  |               |
| Furniture ₹ (800+450)                |              | 1,250         |  |               |
| Premises                             |              | 1,500         |  |               |
| To Office Expenses                   | 4,240        |               |  |               |
| Add: Opening stock (stationary)      | 560          |               |  |               |
| Less: Closing stock (stationary)     | <u>(650)</u> |               |  |               |
|                                      | 4,150        |               |  |               |
| Less: O/s of 09-10 (Telephone bills) | (290)        |               |  |               |
| Add: O/s of 10-11 (Telephone bills)  | <u>370</u>   | 4,230         |  |               |
| To Excess of income over expenditure |              | <u>24,000</u> |  |               |
|                                      |              | <u>54,620</u> |  | <u>54,620</u> |

Balance Sheet as at 31<sup>st</sup> March, 2011

| Liabilities                  | ₹             | ₹        | Assets             | ₹              | ₹.     |
|------------------------------|---------------|----------|--------------------|----------------|--------|
| Salaries and wages due       |               | 410      | Bank balance:      |                |        |
| Creditors for bar supplies   |               | 13,250   | Current A/c        | 2,230          |        |
| Advance subscription         |               | 260      | Deposit A/c        |                |        |
| Telephone bill outstanding   |               | 370      | (3,000+5,000+510)  | <u>8,510</u>   | 10,740 |
| Electricity bill outstanding |               | 440      | Investments        | 30,000         |        |
| Repairs A/c outstanding      |               | 530      | Add: New purchases | <u>14,000</u>  |        |
| Bar wages due                |               | 230      |                    | 44,000         |        |
| Capital fund:                |               |          | Less: Sale         | <u>(3,280)</u> | 40,720 |
| Opening balance              | 87,530        |          | Furniture :        |                |        |
| Add: Surplus                 | <u>24,000</u> | 1,11,530 | 13 years old       |                | Nil    |
|                              |               |          | 6 years old        | 8,000          |        |
|                              |               |          | Less: Depreciation | <u>(4,800)</u> | 3,200  |
|                              |               |          | New furniture      | 9,000          |        |
|                              |               |          | Less: Depreciation | <u>(450)</u>   | 8,550  |
|                              |               |          | Subscriptions      |                |        |
|                              |               |          | outstanding        |                | 980    |

|  |  |                 |                           |          |                 |
|--|--|-----------------|---------------------------|----------|-----------------|
|  |  |                 | Stock of stationery       |          | 650             |
|  |  |                 | Stock of coal             |          | 570             |
|  |  |                 | Rates & insurance prepaid |          | 730             |
|  |  |                 | Debtors for bar sales     |          | 490             |
|  |  |                 | Stock of bar supplies     |          | 19,890          |
|  |  |                 | Freehold premises         | 60,000   |                 |
|  |  |                 | Less: Acc. dep.           | (19,500) | 40,500          |
|  |  | <u>1,27,020</u> |                           |          | <u>1,27,020</u> |

Working Notes:

(i) Creditors for Bar Purchases Account

| Particulars    | ₹               | Particulars                                | ₹               |
|----------------|-----------------|--------------------------------------------|-----------------|
| To Cash A/c    | 1,34,610        | By Balance b/d                             | 12,170          |
| To Balance c/d | 13,250          | By Bar trading A/c (Purchases) (bal. fig.) | <u>1,35,690</u> |
|                | <u>1,47,860</u> |                                            | <u>1,47,860</u> |

(ii) Debtors for bar taking Account

| Particulars                | ₹               | Particulars                            | ₹               |
|----------------------------|-----------------|----------------------------------------|-----------------|
| To Balance b/d             | 120             | By Cash A/c (collections from debtors) | 1,53,920        |
| To Bar Trading A/c (Sales) | 1,54,290        | By Balance c/d                         | <u>490</u>      |
|                            | <u>1,54,410</u> |                                        | <u>1,54,410</u> |

(iii) Balance Sheet as at 31<sup>st</sup> March, 2010

| Liabilities                | ₹      | Assets                | ₹               | ₹      |
|----------------------------|--------|-----------------------|-----------------|--------|
| Salaries and wages due     | 330    | Bank balance:         |                 |        |
| Creditors for bar supplies | 12,170 | Current A/c           |                 | 3,360  |
| Subscription in advance    | 140    | Deposit A/c           |                 | 5,000  |
| Outstanding:               |        | Investment            |                 | 30,000 |
| Telephone bill             | 290    | Stock of bar supplies |                 | 14,220 |
| Electricity bill           | 310    | Furniture             |                 |        |
| Repairs A/c                | 90     | 12 years old          | 10,000          |        |
| Bar wages                  | 210    | Less: Depreciation    | <u>(10,000)</u> | nil    |

|                          |                 |                           |                 |                 |
|--------------------------|-----------------|---------------------------|-----------------|-----------------|
| Capital Fund (bal. fig.) | 87,530          | 5 years old               | 8,000           |                 |
|                          |                 | Less: Depreciation        | <u>(4,000)</u>  | 4,000           |
|                          |                 | Subscriptions due         |                 | 790             |
|                          |                 | Stock of stationery       |                 | 560             |
|                          |                 | Stock of coal             |                 | 400             |
|                          |                 | Rates & insurance prepaid |                 | 620             |
|                          |                 | Debtors for bar sales     |                 | 120             |
|                          |                 | Freehold premises         | 60,000          |                 |
|                          |                 | Less: Acc. depreciation   | <u>(18,000)</u> | <u>42,000</u>   |
|                          | <u>1,01,070</u> |                           |                 | <u>1,01,070</u> |

12. (a) Statement of Affairs as on 31<sup>st</sup> March, 2010

| Liabilities        | ₹               | Assets               | ₹               |
|--------------------|-----------------|----------------------|-----------------|
| Capital (bal.fig.) | 1,61,700        | Machinery            | 1,10,000        |
| Sundry creditors   | 2,750           | Stock                | 10,450          |
|                    |                 | Debtors              | 550             |
|                    |                 | Cash at bank (W.N.1) | 42,350          |
|                    |                 | Cash in hand         | 1,100           |
|                    | <u>1,64,450</u> |                      | <u>1,64,450</u> |

## (b) Calculation of loss for 3 months (1.1.2010 to 31.3.2010)

|                              | ₹                 |
|------------------------------|-------------------|
| Capital as on 31.3.2010      | 1,61,700          |
| Add: Drawings for 3 months   | 770               |
|                              | <u>1,62,470</u>   |
| Less: Capital as on 1.1.2010 | <u>(1,65,000)</u> |
| Loss for 3 months            | 2,530             |

(c) Statement of Affairs as on 31<sup>st</sup> March, 2011

| Liabilities      | ₹               | Assets               |               | ₹               |
|------------------|-----------------|----------------------|---------------|-----------------|
| Capital          | 1,80,400        | Machinery            | 1,10,000      |                 |
| Sundry Creditors | 1,650           | Add: Additions       | <u>33,000</u> | 1,43,000        |
|                  |                 | Stock                |               | 15,950          |
|                  |                 | Debtors              |               | 1,100           |
|                  |                 | Cash at bank (W.N.2) |               | 20,350          |
|                  |                 | Cash in hand         |               | 1,650           |
|                  | <u>1,82,050</u> |                      |               | <u>1,82,050</u> |

## (d) Statement of Profit and Loss for the year ended 31.3.2011

| Particulars                           | ₹          |
|---------------------------------------|------------|
| Capital as on 31.3.2011               | 1,80,400   |
| Add: Drawings (₹ 385 x 12)            | 4,620      |
|                                       | 1,85,020   |
| Less: capital as on 31.3.2010         | (1,61,700) |
| Net profit for the year ended 31.3.11 | 23,320     |

## Working Notes:

|                                                | ₹          |
|------------------------------------------------|------------|
| 1. Bank balance as on 31.3.2010                |            |
| Balance as on 1.1.2010                         | 1,65,000   |
| Less: Withdrawals during 1.1.2010 to 31.3.2010 | (1,22,650) |
| Balance as on 31.3.2010                        | 42,350     |
| 2. Bank Balance as on 31.3.2011:               |            |
| Balance as on 1.4.2010                         | 42,350     |
| Add: Deposits during the year                  | 1,26,500   |
|                                                | 1,68,850   |
| Less: Withdrawals during the year              | (1,48,500) |
| Bank Balance as on 31.3.2011                   | 20,350     |

13. (a) Hire-Purchase Trading Account  
for the year ending 31<sup>st</sup> December, 2011

|                                   | ₹        |                                         | ₹        |
|-----------------------------------|----------|-----------------------------------------|----------|
| To Stock with customers (at cost) | 27,000   | By Cash received from customers (W.N 1) | 2,70,000 |
| To Installments due and unpaid    | 22,500   | By Goods Repossessed A/c                | 2,250    |
| To Goods sold on H.P. A/c (W.N 1) | 2,61,000 | By Stock with customers                 |          |
|                                   |          | 1,32,000 - $\frac{100}{150}$ (W.N.2)    | 88,000   |
| To Profit and Loss A/c            | 90,250   | By Installments due and unpaid          | 40,500   |
|                                   | 4,00,750 |                                         | 4,00,750 |

## Working Notes:

## 1. Shop Stock A/c

|                                   | ₹        |                                                          | ₹        |
|-----------------------------------|----------|----------------------------------------------------------|----------|
| To Balance b/d                    | 81,000   | By Cost of Goods sold on Hire-Purchase(Balancing Figure) | 2,61,000 |
| To Purchases                      | 2,70,000 | By Balance c/d                                           | 92,250   |
| To H.P. Trading-Goods Repossessed | 2,250    |                                                          |          |
|                                   | 3,53,250 |                                                          | 3,53,250 |

## 2. Installments Account

|                                               | ₹        |                                                | ₹        |
|-----------------------------------------------|----------|------------------------------------------------|----------|
| To Stock with customers (at H.P)              | 40,500   | By Cash received                               | 2,70,000 |
| To Instalments due and unpaid                 | 22,500   | By Goods Repossessed (Instalments due on them) | 12,000   |
| To Goods sold on H.P. A/c (₹ 2,61,000 × 150%) | 3,91,500 | By Stock with customers (Bal. Fig.) (at H.P)   | 1,32,000 |
|                                               | 4,54,500 | By Instalments due and unpaid                  | 40,500   |
|                                               |          |                                                | 4,54,500 |

## (b) Schedule of Profit or Loss on Sales

(Average cost method)

|         |          | Nominal | Cum-Dividend cost | Dividend | Cost                | Realized  | Profit | Loss |
|---------|----------|---------|-------------------|----------|---------------------|-----------|--------|------|
|         |          | ₹       | ₹                 | ₹        | ₹                   | ₹         | ₹      | ₹    |
| 2009    |          |         |                   |          |                     |           |        |      |
| Sept 1  | Purchase | 10,000  | 10,150            | 50       | 10,100              |           |        |      |
| Oct 1   | Purchase | 25,000  | 25,250            | 250      | 25,000              |           |        |      |
|         |          | 35,000  |                   |          | 35,100              |           |        |      |
| Nov. 1  | Sale     | 15,000  |                   |          | 15,043 <sup>1</sup> | 15,262.50 | 219.50 |      |
|         |          | 20,000  |                   |          | 20,057              |           |        |      |
| Nov. 1  | Purchase | 5,000   | 5,150             | 75       | 5,075               |           |        |      |
|         |          | 25,000  |                   |          | 25,132              |           |        |      |
| 2010    |          |         |                   |          |                     |           |        |      |
| Jan. 15 | Sale     | 10,000  |                   |          | 10,053 <sup>2</sup> | 10,500    | 447.00 |      |

|         |          |               |                |           |                           |        |        |    |
|---------|----------|---------------|----------------|-----------|---------------------------|--------|--------|----|
| Mar.1   | Sales    | 15,000        |                |           | 15,079                    |        |        |    |
|         |          | <u>4,000</u>  |                |           | <u>4,021<sup>3</sup></u>  | 4,080  | 59.00  |    |
|         |          | 11,000        |                |           | 11,058                    |        | 750.50 |    |
| July 15 | Purchase | <u>5,000</u>  | <u>5,062.5</u> | -         | <u>5,062</u>              |        |        |    |
|         |          | 16,000        |                |           | 16,120                    |        |        |    |
| Nov.1   | Purchase | <u>5,000</u>  | <u>5,100</u>   | <u>75</u> | <u>5,025</u>              |        |        |    |
|         |          | 21,000        |                |           | 21,145                    |        |        |    |
| 2011    |          |               |                |           |                           |        |        |    |
| Jan.15  | Sale     | <u>15,000</u> |                |           | <u>15,104<sup>4</sup></u> | 15,037 |        | 67 |
|         |          | 6,000         |                |           | 6,041                     |        |        |    |

## 6% State Government Stock

*(Interest payable half-yearly on 1<sup>st</sup> February & 1<sup>st</sup> August)*

| Date<br>2009     | Particulars                           | Nominal<br>₹ | Interest<br>₹ | Capital<br>₹ | Date<br>2009    | Particulars                                                                                       | Nominal<br>₹ | Interest<br>₹ | Capital<br>₹ |
|------------------|---------------------------------------|--------------|---------------|--------------|-----------------|---------------------------------------------------------------------------------------------------|--------------|---------------|--------------|
| Sept. 1          | To Cash A/c:<br>Purchase at ₹ 101.50  | 10,000       | 50            | 10,100       | Nov. 1          | By Cash A/c:<br>Sale at ₹ 103.25                                                                  | 15,000       | 225           | 15,263       |
| Oct.1            | To Cash A/c:<br>Purchase at ₹ 101     | 25,000       | 250           | 25,000       | 2010<br>Jan. 15 | By Cash A/c:<br>Sale at ₹ 105<br>ex-interest                                                      | 10,000       | 275           | 10,500       |
| Nov. 1           | To Cash A/c:<br>Purchase at ₹103      | 5,000        | 75            | 5075         | Feb. 1          | By Interest on<br>15,000 at 6%<br>p.a. for half year                                              |              | 450           |              |
| Nov. 1           | To P/L A/c (Profit<br>on transaction) |              |               | 220          | Mar. 1          | By Cash A/c:<br>Sale at ₹ 102.50                                                                  | 4,000        | 20            | 4,080        |
| 2010<br>Jan. 15  | To P/L A/c                            |              |               | 447          | June 30         | By Balance c/d<br>(Stock at<br>average cost)<br>Accruing<br>interest there<br>on for 5<br>months) | 11,000       | 275           | 11,058       |
| Mar.1<br>June 30 | To P/L A/c<br>To P/L A/c              |              | 870           | 59           |                 |                                                                                                   |              |               |              |
|                  |                                       | 40,000       | 1,245         | 40,901       |                 |                                                                                                   | 40,000       | 1,245         | 40,901       |
| 2010<br>July 1   | To Balance b/d                        | 11,000       | 275           | 11,058       | 2010<br>Aug. 1  | By Interest on<br>₹16,000 at 6%<br>p.a. for half<br>year                                          |              | 480.00        |              |

|              |                                              |        |       |        |              |                                                                       |        |        |        |
|--------------|----------------------------------------------|--------|-------|--------|--------------|-----------------------------------------------------------------------|--------|--------|--------|
| July 15      | To Cash A/c: Purchase at ₹101.25 ex-interest | 5,000  | 138   | 5,062  | 2011 Jan. 15 | By Cash A/c: Sale at ₹103                                             | 15,000 | 413    | 15,037 |
|              |                                              |        |       |        | Jan. 15      | By P/L A/c (Loss and transaction)                                     |        |        | 67.00  |
| Nov. 1       | To Cash A/c: Purchase at ₹102                | 5,000  | 75    | 5,025  | Feb. 1       | By Bank A/c (Int on ₹6,000 for 1/2 year)                              |        | 180.00 |        |
| 2011 June 30 | To P/L A/c                                   |        | 710   |        | June 30      | By Balance c/d (Stock at average cost accruing interest for 5 months) | 6,000  | 125.00 | 6,041  |
|              |                                              | 21,000 | 1,198 | 21,145 |              |                                                                       | 21,000 | 1,198  | 21,145 |
| 2011 July 1  | To Balance b/d                               | 6,000  | 125   | 6,041  |              |                                                                       |        |        |        |
| July 1       | To Cash A/c: Purchase at ₹102                | 2,000  | 50    | 1,990  |              |                                                                       |        |        |        |

## Working Notes:

- $\frac{15}{35} \times 35,100 = ₹ 15,043$  (approx)
- $\frac{10}{25} \times 25,132 = ₹ 10,053$  (approx)
- $\frac{4}{15} \times 15,079 = ₹ 4,021$  (approx)
- $\frac{15}{21} \times 21,146 = ₹ 15,104$  (approx)

## 14. (a) Branch Stock Account

| Particulars                       | ₹      | Particulars                           | ₹      |
|-----------------------------------|--------|---------------------------------------|--------|
| To Balance b/d                    | 12,000 | By Cash A/c (Cash sales)              | 20,000 |
| To Goods sent to Branch A/c       | 35,000 | By Branch Debtors (credit sales)      | 21,000 |
| To Branch Debtors (Sales Returns) | 600    | By Goods sent to Branch A/c (Returns) | 1,000  |
|                                   |        | By Shortage of goods                  | 400    |

|                                                    |          |                                                      |          |
|----------------------------------------------------|----------|------------------------------------------------------|----------|
|                                                    |          | By Balance c/d (Bal. fig.)                           | 5,200    |
|                                                    | 47,600   |                                                      | 47,600   |
| <b>Branch Debtors Account</b>                      |          |                                                      |          |
| <i>Particulars</i>                                 | <i>₹</i> | <i>Particulars</i>                                   | <i>₹</i> |
| To Balance b/d                                     | 6,200    | By Branch stock A/c (Sales Returns)                  | 600      |
| To Branch Stock (Credit sales)                     | 21,000   | By Cash A/c                                          | 19,800   |
|                                                    |          | By Discount                                          | 300      |
|                                                    |          | By Balance c/d (Bal. fig.)                           | 6,500    |
|                                                    | 27,200   |                                                      | 27,200   |
| <b>Branch Expenses Account</b>                     |          |                                                      |          |
| <i>Particulars</i>                                 | <i>₹</i> | <i>Particulars</i>                                   | <i>₹</i> |
| To Cash A/c                                        | 6,100    | By Branch P/L A/c (Bal. fig.)                        | 6,400    |
| To Discount A/c                                    | 300      |                                                      |          |
|                                                    | 6,400    |                                                      | 6,400    |
| <b>Goods Sent to Branch Account</b>                |          |                                                      |          |
| <i>Particulars</i>                                 | <i>₹</i> | <i>Particulars</i>                                   | <i>₹</i> |
| To Branch Stock A/c (Returns)                      | 1,000    | By Branch Stock A/c                                  | 35,000   |
| To Branch Adjustment A/c (Loading) (35,000 × 30%)  | 10,500   | By Branch Adj. A/c (Loading) (1,000 × 30%)           | 300      |
| To Trading A/c (Bal. fig.)                         | 23,800   |                                                      |          |
|                                                    | 35,300   |                                                      | 35,300   |
| <b>Branch Adjustment Account</b>                   |          |                                                      |          |
| <i>Particulars</i>                                 | <i>₹</i> | <i>Particulars</i>                                   | <i>₹</i> |
| To Shortage of goods (Loading) (400 × 30%)         | 120      | By Branch Stock Reserve (12,000 × 30%)               | 3,600    |
| To Branch Stock Reserve A/c (5,200 × 30%)          | 1,560    | By Goods sent to Branch (Net loading) (10,500 – 300) | 10,200   |
| To Gross profit transferred to P/L A/c (Bal. fig.) | 12,120   |                                                      |          |
|                                                    | 13,800   |                                                      | 13,800   |



## Branch Profit and Loss Account

| Particulars                             | ₹      | Particulars                      | ₹      |
|-----------------------------------------|--------|----------------------------------|--------|
| To Branch Expenses A/c                  | 6,400  | By Gross Profit transferred from | 12,120 |
| To Shortage of Goods (cost) (400 × 70%) | 280    | Branch Adjustment A/c            |        |
| To Net Profit                           | 5,440  |                                  |        |
|                                         | 12,120 |                                  | 12,120 |

(b) Ascertainment of rate of gross profit for the year 2009-10

## Trading A/c for the year ended 31-3-2010

|                  | ₹         |                  | ₹         |
|------------------|-----------|------------------|-----------|
| To Opening stock | 9,62,200  | By Sales         | 52,00,000 |
| To Purchased     | 45,25,000 | By Closing stock | 13,27,200 |
| To Gross profit  | 10,40,000 |                  |           |
|                  | 65,27,200 |                  | 65,27,200 |

$$\text{Rate of gross profit} = \frac{\text{GP}}{\text{Sales}} \times 100$$

$$= \frac{10,40,000}{52,00,000} \times 100 = 20\%$$

## Memorandum Trading A/c for the period from 1-4-2010 to 22-01-2011

|                                      | ₹                 | ₹         |                            | ₹             | ₹         |
|--------------------------------------|-------------------|-----------|----------------------------|---------------|-----------|
| To Opening stock                     |                   | 13,27,000 | By Sales                   | 49,17,000     |           |
| To Purchases                         | 34,82,700         |           | Add: Unrecorded cash sales | <u>40,000</u> | 49,57,000 |
| Less: Goods used for advertisement   | <u>(1,00,000)</u> | 33,82,700 | By Closing stock           |               | 7,44,100  |
| To Gross profit (20% of ₹ 49,57,000) |                   | 9,91,400  |                            |               |           |
|                                      |                   | 57,01,100 |                            |               | 57,01,100 |

Estimated stock in hand on the date of fire= ₹ 7,44,100.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2010 to 18.8.2010 = 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × ₹ 2,000 = ₹ 40,000.

15. (a)

In the books of X, Y &amp; Z

## Journal Entries

| Particulars                                                                                |     | Dr. (₹) | Cr. (₹) |
|--------------------------------------------------------------------------------------------|-----|---------|---------|
| Insurance Company's A/c                                                                    | Dr. | 10,000  |         |
| To Life Policy A/c ( W.N 3)                                                                |     |         | 10,000  |
| (Being the Policy on the life of Z matured on his death)                                   |     |         |         |
| Life Policy A/c ( W.N 4)                                                                   | Dr. | 9,000   |         |
| To Xs Capital A/c                                                                          |     |         | 3,000   |
| To Y's Capital A/c                                                                         |     |         | 3,000   |
| To Z's Capital A/c                                                                         |     |         | 3,000   |
| (Being the transfer of balance of Life Policy A/c)                                         |     |         |         |
| Profit and Loss Suspense A/c (W.N.1)                                                       | Dr. | 1,500   |         |
| To Z's Capital A/c                                                                         |     |         | 1,500   |
| (Being Z's share of profit to date of death credited to his account)                       |     |         |         |
| X's Capital A/c                                                                            | Dr. | 12,600  |         |
| Y's Capital A/c                                                                            | Dr. | 12,600  |         |
| Z's Capital A/c                                                                            | Dr. | 12,600  |         |
| To Goodwill A/c                                                                            |     |         | 37,800  |
| (Being the existing Goodwill written off)                                                  |     |         |         |
| X's Capital A/c ( W.N 2)                                                                   | Dr. | 3,500   |         |
| Y's Capital A/c                                                                            | Dr. | 3,500   |         |
| To Z's Capital A/c                                                                         |     |         | 7,000   |
| (Being Z's share of goodwill adjusted through capital accounts)                            |     |         |         |
| Land & Building A/c                                                                        | Dr. | 37,000  |         |
| To Revaluation A/c                                                                         |     |         | 37,000  |
| (Being an increase in the value of assets)                                                 |     |         |         |
| Investment fluctuation reserve A/c                                                         | Dr. | 600     |         |
| To Investment A/c                                                                          |     |         | 600     |
| (Being decline in the cost of investment adjusted from investment fluctuation reserve A/c) |     |         |         |

|                                                          |     |        |        |
|----------------------------------------------------------|-----|--------|--------|
| Revaluation A/c                                          | Dr. | 3,600  |        |
| To Stock A/c                                             |     |        | 1,200  |
| To Provision for doubtful debts A/c                      |     |        | 2,400  |
| (Being decline in value of assets recorded)              |     |        |        |
| Revaluation A/c                                          | Dr. | 33,400 |        |
| To X's Capital A/c                                       |     |        | 11,133 |
| To Y's Capital A/c                                       |     |        | 11,133 |
| To Z's Capital A/c                                       |     |        | 11,134 |
| (Being transfer of profit on revaluation)                |     |        |        |
| General Reserve A/c                                      | Dr. | 8,900  |        |
| Investment Fluctuation Reserve A/c (2,400 -600)          | Dr. | 1,800  |        |
| To X's Capital A/c                                       |     |        | 3,567  |
| To Y's Capital A/c                                       |     |        | 3,567  |
| To Z's Capital A/c                                       |     |        | 3,566  |
| (Being the transfer of accumulated profits)              |     |        |        |
| Z's Capital A/c                                          | Dr. | 53,300 |        |
| To Z's Executor's A/c                                    |     |        | 53,300 |
| (Being the transfer of Z's Capital to his Executors A/c) |     |        |        |

Balance Sheet as at 31<sup>st</sup> March, 2011

| Liabilities       | ₹               | Assets                  | ₹              | ₹               |
|-------------------|-----------------|-------------------------|----------------|-----------------|
| Z's Executors A/c | 53,300          | Cash and Bank           |                | 10,000          |
| Creditors         | 25,800          | Debtors                 | 20,000         |                 |
| X's Capital A/c   | 61,300          | Less : Provision        | <u>(4,000)</u> | 16,000          |
| Y's Capital A/c   | 41,300          | Stock                   | 20,000         |                 |
|                   |                 | Less: Reserve           | <u>(1,200)</u> | 18,800          |
|                   |                 | Investments             | 10,000         |                 |
|                   |                 | Less : Reserve          | <u>(600)</u>   | 9,400           |
|                   |                 | Land and Building       |                | 1,11,000        |
|                   |                 | ( 74,000+ 37,000)       |                |                 |
|                   |                 | P&L Suspense A/c        |                | 1,500           |
|                   |                 | Life Policies (X and Y) |                | 5,000           |
|                   |                 | Insurance Company       |                | <u>10,000</u>   |
|                   | <u>1,81,700</u> |                         |                | <u>1,81,700</u> |

## Working Notes:

|                                                                      | ₹        |
|----------------------------------------------------------------------|----------|
| 1. Calculation of Z's share of profit to the date of death           |          |
| Total profits for previous three years<br>(18,000+16,000+20,000)     | 54,000   |
| Average Profits (₹ 54,000/3 years)                                   | 18,000   |
| Profit for 3 months period (₹ 18,000 /4)                             | 4,500    |
| Z's share of profit (₹ 4,500 × 1/3)                                  | 1,500    |
| 2. Calculation of goodwill                                           |          |
| (a) Total profits of last five years                                 | 1,05,000 |
| (b) Average profit of last five years (₹ 1,05,000/5)                 | 21,000   |
| (c) Goodwill at one year's purchase (₹ 21,000 × 1)                   | 21,000   |
| Share of goodwill of Z = 21,000/3                                    | 7,000    |
| Shared by X & Y in 1:1 = ₹ 3,500 : ₹ 3,500                           |          |
| 3. Sum assured of Life Policy of Z = (₹1,000 × 100/10)               |          |
| = 10,000                                                             |          |
| 4. Balance of Z's Life policy account to be credited to all partners |          |
| = Sum assured – Surrender value already appearing in the books       |          |
| = ₹10,000 – ₹1,000 = ₹9,000                                          |          |

(b)

## Realisation A/c

|                                       | ₹            | ₹        |                          | ₹        |
|---------------------------------------|--------------|----------|--------------------------|----------|
| To Land & Building                    |              | 2,00,000 | By Sundry Creditors      | 40,000   |
| To Plant                              |              | 2,00,000 | By Bills Payable         | 80,000   |
| To Sundry Debtors                     |              | 50,000   | By Omega Limited (W.N.1) | 6,69,500 |
| To Stock                              |              | 1,50,000 |                          |          |
| To Bill Receivable                    |              | 50,000   |                          |          |
| To Cash                               |              | 1,00,000 |                          |          |
| To Profit transferred to Capital A/c: |              |          |                          |          |
| X                                     | 19,750       |          |                          |          |
| Y                                     | 11,850       |          |                          |          |
| Z                                     | <u>7,900</u> | 39,500   |                          |          |
|                                       |              | 7,89,500 |                          | 7,89,500 |

## Omega Limited

|                    | ₹        |                                        | ₹        |
|--------------------|----------|----------------------------------------|----------|
| To Realisation A/c | 6,69,500 | By Equity Shares in Omega Ltd. A/c     | 1,50,000 |
|                    |          | By Preference Shares in Omega Ltd. A/c | 2,25,000 |
|                    |          | By Debentures in Omega Ltd.            | 2,94,500 |
|                    | 6,69,500 |                                        | 6,69,500 |

## Equity Shares in Omega Ltd. A/c

|                  | ₹        |                                  | ₹        |
|------------------|----------|----------------------------------|----------|
| To Omega Limited | 1,50,000 | By X's Capital in Omega Ltd. A/c | 87,000   |
|                  |          | By Y's Capital A/c               | 63,000   |
|                  | 1,50,000 |                                  | 1,50,000 |

## Preference Shares in Omega Ltd. A/c

|                  | ₹        |                    | ₹        |
|------------------|----------|--------------------|----------|
| To Omega Limited | 2,25,000 | By X's Capital A/c | 1,12,500 |
|                  |          | By Y's Capital A/c | 67,500   |
|                  |          | By Z's Capital A/c | 45,000   |
|                  | 2,25,000 |                    | 2,25,000 |

## Debenture in Omega Ltd. A/c

|                  | ₹        |                    | ₹        |
|------------------|----------|--------------------|----------|
| To Omega Limited | 2,94,500 | By X's Capital A/c | 1,47,250 |
|                  |          | By Y's Capital A/c | 88,350   |
|                  |          | By Z's Capital A/c | 58,900   |
|                  | 2,94,500 |                    | 2,94,500 |

## Cash A/c

|                    | ₹      |                    | ₹      |
|--------------------|--------|--------------------|--------|
| To Z's Capital A/c | 46,000 | By X's Capital A/c | 23,000 |
|                    |        | By Y's Capital A/c | 23,000 |
|                    | 46,000 |                    | 46,000 |

## Partners' Current Accounts

|                | X | Y | Z      |                | X      | Y      | Z |
|----------------|---|---|--------|----------------|--------|--------|---|
|                | ₹ | ₹ | ₹      |                | ₹      | ₹      | ₹ |
| To Balance b/d | - |   | 50,000 | By Balance b/d | 50,000 | 30,000 | - |

|                    |        |        |        |                    |        |        |        |
|--------------------|--------|--------|--------|--------------------|--------|--------|--------|
| To X's Capital A/c | 69,750 |        |        | By Realisation A/c | 19,750 | 11,850 | 7,900  |
| To Y's Capital A/c |        | 41,850 |        | By Z's Capital A/c |        |        | 42,100 |
|                    | 69,750 | 41,850 | 50,000 |                    | 69,750 | 41,850 | 50,000 |

## Partners' Capital Accounts

|                                        | X<br>₹   | Y<br>₹   | Z<br>₹   |                         | X<br>₹   | Y<br>₹   | Z<br>₹   |
|----------------------------------------|----------|----------|----------|-------------------------|----------|----------|----------|
| To Z's Current A/c                     | -        | -        | 42,100   | By Balance b/d          | 3,00,000 | 2,00,000 | 1,00,000 |
| To Preference Shares in Omega Ltd. A/c | 1,12,500 | 67,500   | 45,000   | By X's Current A/c      | 69,750   |          |          |
| To Debentures A/c                      | 1,47,250 | 88,350   | 58,900   | By Y's Current A/c      |          | 41,850   |          |
| To Cash A/c                            | 23,000   | 23,000   | -        | By Cash A/c (bal. fig.) |          |          | 46,000   |
| To Equity Shares A/c                   | 87,000   | 63,000   | -        |                         |          |          |          |
|                                        | 3,69,750 | 2,41,850 | 1,46,000 |                         | 3,69,750 | 2,41,850 | 1,46,000 |

## Working Notes:

## 1. Calculation of Purchase consideration

## Net Payment Method

|                                   | ₹               |
|-----------------------------------|-----------------|
| Equity Shares = 10,000 @ ₹ 15     | 1,50,000        |
| Preference Shares = 15,000 @ ₹ 15 | 2,25,000        |
| Debentures = 20,000 @ ₹ 14.725    | <u>2,94,500</u> |
|                                   | <u>6,69,500</u> |

2. As whole business of the firm was sold to Omega Limited, cash balance of the firm ₹1,00,000 is also transferred to realisation account. Cash brought in by Z equal to debit balance appearing in his account, after distribution of preference shares and debentures in profit sharing ratio would be shared by X and Y equally. The balance amount payable to X and Y would be settled by transfer of equity shares in Omega Company.
16. Recently a growing trend has developed for outsourcing the accounting function to a third party. The consideration for doing this is to save cost and to utilise the expertise of the outsourced party. The third party maintains the accounting software and the client data, does the processing and hands over the report from time to time. One should be well acquainted with the advantages & disadvantages of outsourcing.

Following are the advantages of outsourcing the accounting functions:

1. The organisation that outsources is able to save time to concentrate on the core area of business activity.
2. The organisation is able to utilise the expertise of the third party in undertaking the accounting work.
3. Storage and maintenance of the data is in the hands of professional people.
4. The organisation is not bothered about people leaving the organisation in key accounting positions.
5. The proposition often proves to be economically more sensible.

Following are the disadvantages of outsourcing the accounting functions:

1. *The data of the organisation is handed over to a third party:* This raises two issues, one of security and second of confidentiality. There have been instances of information leaking out of the third party data centers.
  2. *Inadequate services provided:* The third party is unable to meet the standards desirable.
  3. *The cost may ultimately be higher than initially envisaged.*
  4. *Delay in obtaining services:* The third party service providers are catering to number of clients thereby processing as per priority basis.
17. (a) As per para 16 & 17 of AS 1, "Disclosure of Accounting Policies", the main consideration in selection of accounting policy is the presentation of a true and fair picture of the state of affairs & performance of the enterprise. To ensure true and fair consideration, principles of prudence, substance over form and materiality should be looked into.

In this case, the economic reality and substance of the transaction is that the rights and beneficial interest in the property has been transferred although legal title has not been transferred. Hence, X Ltd. in its financial statements for the year ended 31.3.2011, should record the sale and recognize the profit of ₹ 35 lakhs in its Profit & Loss Account and building should be removed from the balance sheet of X Ltd. Therefore, the treatment given by the company is not correct.

- (b) Calculation of total cost of material as per AS-2

|                                          | ₹                 |
|------------------------------------------|-------------------|
| Purchase price (16,000 kg. x ₹ 160)      | 25,60,000         |
| Less : CENVAT credit (16,000 kg. x ₹ 10) | <u>(1,60,000)</u> |
|                                          | 24,00,000         |
| Add : Freight                            | <u>1,40,160</u>   |
| Total material cost                      | <u>25,40,160</u>  |

|                                   |                                                                                               |
|-----------------------------------|-----------------------------------------------------------------------------------------------|
| Number of units after normal loss | = 16,000 kg. x (100-2)% = 15,680 kg                                                           |
| Revised cost per kg.              | = $\frac{25,40,160}{15,680 \text{ kg}}$ = ₹ 162 per kg                                        |
| Closing inventory                 | = Material actually received – Material consumed<br>= 15,500 kg – 13,600 kg = 1,900 kg        |
| Value of closing stock            | = 1,900 kg x ₹ 162 = ₹ 3,07,800                                                               |
| Abnormal loss in kg               | = Material after normal loss - Material actually received<br>= 15,680 kg – 15,500 kg = 180 kg |
| Abnormal loss in value            | = 180 kg x ₹ 162 = ₹ 29,160                                                                   |

- (c) (i) Events occurring after the Balance Sheet date that represent material changes and commitments affecting the financial position of the enterprise must be disclosed according to para 15 of AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'. Hence, fire accident and loss thereof must be disclosed.
- (ii) Suit filed against the company being a contingent liability must be disclosed with the nature of contingency, an estimate of the financial effect and uncertainties which may affect the future outcome must be disclosed as per para 16 of AS 4.
- (iii) There are events which, although take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. Such items include the amount of dividend proposed or declared by the enterprise after the balance sheet date in respect of the period covered by the financial statements. Thus, dividends which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted as per para 14 of AS 4.
- (d) Para 29 of AS 5 (Revised), 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', states that a change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of an enterprise. Therefore, the change in the method of stock valuation is justified in view of the fact that the change is in line with the recommendations of AS 2 (Revised) 'Valuation of Inventories' and would result in more appropriate preparation of the financial statements. As per AS 2, this accounting policy adopted for valuation of inventories including the cost formulae used should be disclosed in the financial statements.

Also, appropriate disclosure of the change and the amount by which any item in the financial statements is affected by such change is necessary as per AS 1, AS 2 and AS 5. Therefore, the under mentioned note should be given in the annual accounts.



“In compliance with the Accounting Standards issued by the ICAI, delayed cotton clearing charges which are in the nature of interest have been excluded from the valuation of closing stock unlike preceding years. Had the company continued the accounting practice followed earlier, the value of closing stock as well as profit before tax for the year would have been higher by ₹ 7.60 lakhs.”

18. (a) As per para 15 of AS 6, ‘Depreciation Accounting’, when the method of depreciation is changed, depreciation is recalculated in accordance with the new method from the date of the assets coming into use. The deficiency or surplus arising from retrospective re-computation of depreciation in accordance with the new method is adjusted in the statement of profit & loss in the year in which the method of depreciation is changed.

Calculation of Surplus/Deficiency due to change in method of depreciation

|                                                                               | ₹               |
|-------------------------------------------------------------------------------|-----------------|
| Purchase price of plant as on 01-04-2008                                      | 2,00,000        |
| Less: Depreciation as per SLM, for the year 2008-09<br>(₹ 2,00,000 , 7 years) | <u>(28,571)</u> |
| Balance as on 31-3-2009                                                       | 1,71,429        |
| Less: Depreciation for the year 2009-10 (₹ 2,00,000 , 7 years)                | <u>(28,571)</u> |
| Balance as on 31-3-2010                                                       | <u>1,42,858</u> |
| Book value as per WDV method                                                  | 1,44,500        |
| Book value as per SLM                                                         | <u>1,42,858</u> |
| Deficiency                                                                    | <u>1,642</u>    |

Deficiency of ₹ 1,642 should be charged to Profit & Loss account.

Therefore, the accounting treatment done by the enterprises is wrong i.e. book value of ₹ 1,44,500 will not be written off over the remaining useful life of machinery i.e. 5 years.

Note: It is assumed that when the company changed the method of depreciation from WDV to SLM, it re-calculated the depreciation amount on the basis of useful life and has not continued with WDV rate of depreciation.

- (b) Calculation of total estimated cost

|                                | ₹                |
|--------------------------------|------------------|
| Cost incurred to date          | 58,50,000        |
| Estimate of cost to completion | <u>31,50,000</u> |
| Estimated total cost           | <u>90,00,000</u> |

Also as per para 21 of the standard, when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Accordingly,

$$\text{Percentage of completion of contract} = \frac{\text{Expenditure till date}}{\text{Total estimated expenditure}} \times 100$$

$$\text{Degree of completion} (58,50,000/90,00,000) \times 100 = 65\%$$

Revenue recognised as a percentage to contract price

$$65\% \text{ of ₹ } 80,00,000 = ₹ 52,00,000$$

As per para 35 of AS 7 (Revised) 'Construction Contracts', when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

Accordingly, the loss of ₹10,00,000 (i.e. ₹ 90,00,000-80,00,000) is required to be recognized as an expense in the year 2010-11.

|                                                                   | ₹                 |
|-------------------------------------------------------------------|-------------------|
| Total foreseeable loss                                            | 10,00,000         |
| Less: Loss for the current year (58,50,000-52,00,000)             | <u>(6,50,000)</u> |
| Expected loss to be recognized immediately as per para 35 of AS 7 | <u>3,50,000</u>   |

**Profit and Loss A/c (An extract)**

|                                             | ₹         |                   | ₹         |
|---------------------------------------------|-----------|-------------------|-----------|
| To Construction cost                        | 58,50,000 | By Contract price | 52,00,000 |
| To Estimated loss on completion of contract | 3,50,000  |                   |           |
|                                             | ?         |                   | ?         |

- (c) (i) As per para 6 of AS 9 'Revenue Recognition', revenue is recognized at the time when the significant risks & rewards of ownership is transferred i.e. when the invoice is raised to the customers. However, the treatment of deduction as trade discount is not as per illustrative example given in AS 9.

According to the treatment prescribed by para 8 of AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", the adjustment of the difference between the invoiced amount and the amount finally settled against "Ship Repair Income" account is correct. Events occurring up to the date of approval of the accounts by the Board of Directors should be taken into

consideration in determining the amount of adjustment to be made in this regard. However, the description of the difference as “trade discount” is not appropriate.

- (ii) In respect of ship repair jobs for which negotiations between the ship owners and the company are not over, the accounting treatment is not appropriate. Instead, the amount of difference between the invoiced amount and the amount likely to be finally settled (as estimated on the basis of past experience) should be adjusted in the “Ship Repair Income” by a corresponding credit to the accounts of the respective ship owners. Consequently, the figure of sundry debtors included in the balance sheet would be net of adjustment for such difference. In other words, the amount of the difference would be neither shown under the head provisions nor shown as a deduction from the sundry debtors in the balance sheet.

(d) Ascertainment of carrying cost

|                                                                                                                         | ₹ in lakhs   |
|-------------------------------------------------------------------------------------------------------------------------|--------------|
| Cost of acquisition                                                                                                     | 300          |
| Less: Depreciation for 4 years (i.e from 1.1.2006 to 31.12.2009)<br>@ 10% per annum ( $300 \times 10\% \times 4$ years) | <u>(120)</u> |
| Book value as on 1.1.2010                                                                                               | 180          |
| Add: Upward revaluation credited to revaluation reserve A/c                                                             | <u>90</u>    |
| Revalued carrying cost as on 1.1.2010                                                                                   | 270          |
| Less: Depreciation at one-sixth of the revalued amount<br>(Refer note)                                                  | <u>(45)</u>  |
| Book value as on 1.1.2011                                                                                               | 225          |
| Less: Depreciation at one-sixth of the revalued amount                                                                  | <u>(45)</u>  |
| Balance to be carried forward as on 31.12.2011                                                                          | <u>180</u>   |

Working Note:

As the depreciation rate is 10% on SLM, it is implied that the economic life of the asset is 10 years.

Since there is no change in the economic life of the machinery, the revalued amount should be written off over the remaining six year of economic life i.e  $\text{₹ } 270/6 = \text{₹ } 45$  lakhs per year.

The book value of the asset on 1-1-2010 is ₹ 180 lakhs. Since it is revalued at ₹ 270 lakhs the difference of ₹ 90 lakhs is credited to revaluation reserve as per para 13 of AS 10 "Accounting for Fixed Assets".

Additional depreciation of ₹ 15 lakhs (₹ 45 lakhs – ₹ 30 lakhs) due to upward revaluation of the assets, may be charged to 'Revaluation Reserve A/c'.

19. (a) (i) As per para 9 of AS 11 "Changes in Foreign Exchange Rates", a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Accordingly, on 31.12.2010, borrowings will be recorded at ₹ 2,20,00,000 (i.e \$ 5,00,000 × ₹ 44.00)

As per para 11(a) of the standard, at each balance sheet date, foreign currency monetary items should be reported using the closing rate. Accordingly, on 31.12.2011, borrowings (monetary items) will be recorded at ₹ 2,22,50,000 (i.e \$ 5,00,000 × ₹ 44.50).

In the books of Aman Ltd.

#### Journal Entries

|    | Date       | Particulars                                                                          | ₹                       | ₹           |
|----|------------|--------------------------------------------------------------------------------------|-------------------------|-------------|
| 1. | 31-12-2010 | Bank A/c Dr.<br>To Borrowings                                                        | 2,20,00,000             | 2,20,00,000 |
| 2. | 31.03.2011 | P/L A/c (Difference in Dr.<br>exchange) (W.N.1)<br>To Borrowings                     | 2,50,000                | 2,50,000    |
| 3. | 30.06.2011 | Borrowings A/c Dr.<br>P/L A/c (Difference in Dr.<br>exchange) (W.N.2)<br>To Bank A/c | 2,22,50,000<br>1,25,000 | 2,23,75,000 |

- (ii) In case borrowings is repaid before balance sheet date, then the entry would be as follows:-

|           |                                  |             |             |
|-----------|----------------------------------|-------------|-------------|
| 28-2-2011 | Borrowings A/c Dr.               | 2,20,00,000 |             |
|           | P/L A/c (Difference in Dr.       | 1,00,000    |             |
|           | exchange) (W.N.3)<br>To Bank A/c |             | 2,21,00,000 |

#### Working Notes:

1. The exchange difference of ₹ 2,50,000 is arising because the transaction

has been reported at different rate (₹ 44.50 = 1 US \$) from the rate initially recorded (i.e. ₹ 44 = 1 US \$).

2. The exchange difference of ₹ 1,25,000 is arising because the transaction has been settled at an exchange rate (₹ 44.75 = 1 US \$) different from the rate at which reported in the last financial statement (₹ 44.50 = 1 US \$).
  3. The exchange difference of ₹ 1,00,000 is arising because the transaction has been settled at a different rate (i.e. ₹ 44.20 = 1 US \$) than the rate at which initially recorded (1 US \$ = ₹ 44.00).
- (b) As per para 21 of AS-12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.
- (i) In this case the grant refunded is ₹ 30 lakhs and balance in deferred income is ₹ 21 lakhs, ₹ 9 lakhs shall be charged to the profit and loss account for the year 2010-11. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.
  - (ii) If the grant was deducted from the cost of the plant in the year 2007-08 then, para 21 of AS-12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by ₹ 30 lakhs. The increased cost of ₹ 30 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2010-11 shall be  $(84 + 30)/7$  years = ₹ 16.286 lakhs presuming the depreciation is charged on SLM.
- (c) As per para 14 & 15 of AS 13 'Accounting for Investments', current investments should be carried at lower of cost and fair price determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis. Also as per para 17 of the standard, long-term investments are carried at cost except when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline.
- (i) If the investment in shares is intended to be held for not more than one year from the date on which such investment is made then scrip X should be valued at cost i.e. ₹ 1,80,000 (lower of cost and fair value), scrip Y should be valued at fair value i.e. ₹ 40,000 (lower of cost and fair value) and scrip Z should be valued at fair value i.e. ₹ 70,000 (lower of cost and fair value). The total loss of ₹ 1,00,000 (₹ 4,00,000 – ₹ 3,00,000) on scrip's purchased on 1<sup>st</sup> June, 2010 is to be charged to profit and loss account for the year ended 31<sup>st</sup> March, 2011.

If investment is intended to be held for long term period then it will continue to be shown at cost in the balance sheet of the company. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of investments, such reduction being determined and made for each investment individually.

- (ii) The investment in gold (purchased in April, 2007) shall continue to be shown at cost of ₹3,00,000 in the balance sheet as on 31.3.2011.
- (iii) If mutual funds are intended to be held for short term period then, it will be valued at ₹4,50,000 as on 31<sup>st</sup> March, 2011 and if it is intended to be held for long term then it should be valued at its cost i.e. ₹6,00,000.
- (iv) Value of government securities (purchased on 1<sup>st</sup> April, 2010) is to be shown at cost of ₹ 5,00,000 in the balance sheet as on 31.3.2011.

Inter-category adjustments of appreciation and depreciation in value of investments cannot be done. It is not possible to offset depreciation in investment in mutual funds against appreciation in value of investments in government securities.

- (d) The Accounting Standard Board (ASB) has opined that investments other than investment properties are not qualifying assets as per AS-16 Borrowing Costs. Therefore, interest cost of holding such investments cannot be capitalized. Further, even interest in respect of investment properties can only be capitalized if such properties meet the definition of qualifying asset, namely, that it necessarily takes a substantial period of time to get ready for its intended use or sale. Also, where the investment properties meet the definition of 'qualifying asset', for the capitalization of borrowing costs, the other requirements of the standard such as that borrowing costs should be directly attributable to the acquisition or construction of the investment property and suspension of capitalization as per paragraphs 17 and 18 of AS-16 have to be complied with.
20. (a) As per para 50 of AS 19 "Leases", if a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognised immediately. If the sale price is below fair value, any profit or loss should be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.

Accordingly, following will be the treatment in the given cases:

- (a) When sales price of ₹ 50 lakhs is equal to fair value, A Ltd. should immediately recognize the profit of ₹10 lakhs (i.e. 50 – 40) in its books.

- (b) When fair value is ₹ 60 lakhs then also profit of ₹10 lakhs should be immediately recognized by A Ltd.
- (c) When fair value of leased machinery is ₹ 45 lakhs & sales price is ₹ 38 lakhs, then loss of ₹ 2 lakhs (40 – 38) to be immediately recognized by A Ltd. in its books provided loss is not compensated by future lease payment.
- (d) When fair value is ₹ 40 lakhs & sales price is ₹ 50 lakhs then, profit of ₹ 10 lakhs is to be deferred and amortized over the lease period.
- (e) When fair value is ₹ 46 lakhs & sales price is ₹ 50 lakhs, profit of ₹ 6 lakhs (46 - 40) to be immediately recognized in its books and balance profit of ₹4 lakhs (50-46) is to be amortised/deferred over lease period.
- (f) When fair value is ₹ 35 lakhs & sales price is ₹ 39 lakhs, then the loss of ₹5 lakhs (40-35) to be immediately recognized by A Ltd. in its books and profit of ₹ 4 lakhs (39-35) should be amortised/deferred over lease period.
- (b) (i) As per para 16 of AS 20, "Earnings Per Share", the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or less number of shares outstanding at any time. For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

**Weighted average number of equity shares**

|                 |                          |
|-----------------|--------------------------|
| 7,20,000 X 5/12 | = 3,00,000 shares        |
| 9,60,000 X 5/12 | = 4,00,000 shares        |
| 8,40,000 X 2/12 | = <u>1,40,000 shares</u> |
|                 | = <u>8,40,000 shares</u> |

- (ii) Equity per share

Basic EPS 2010-11 = ₹ 24,00,000/24,00,000 = ₹ 1

Adjusted EPS 2009-10 = ₹ 7,20,000/24,00,000 = ₹ 0.30

Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2009-10, the earliest period reported.

- (c) As per para 72 of AS 26 'Intangibles Assets', the amortization method used should reflect the pattern in which economic benefits are consumed by the enterprise. If pattern cannot be determined reliably, then straight-line method should be used.

In the instant case, the pattern of economic benefit in the form of net operating cash flow vis-à-vis production is determined reliably. Initially net operating cash flow per thousand bottles is ₹ 3 lakhs for first two years and ₹ 4 lakhs from fourth year

onwards, the pattern is established. Therefore Hera Ltd. should amortize the license fee of ₹ 200 lakhs as under:

| Year | Net operating Cash in flow | Ratio              | Amortize amount (₹ in lakhs) |
|------|----------------------------|--------------------|------------------------------|
| 1    | 900                        | 0.03               | 6                            |
| 2    | 1,800                      | 0.06               | 12                           |
| 3    | 2,300                      | 0.08               | 16                           |
| 4    | 3,200                      | 0.12               | 24                           |
| 5    | 3,200                      | 0.12               | 24                           |
| 6    | 3,200                      | 0.12               | 24                           |
| 7    | 3,200                      | 0.12               | 24                           |
| 8    | 3,200                      | 0.12               | 24                           |
| 9    | 3,200                      | 0.12               | 24                           |
| 10   | <u>3,200</u>               | <u>0.11 (bal.)</u> | <u>22</u>                    |
|      | <u>27,400</u>              | <u>1.00</u>        | <u>200</u>                   |

- (d) As per para 46 of AS-29, 'Provisions, Contingent Liabilities and Contingent Assets', where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

Accordingly, potential loss to an enterprise may be reduced or avoided because a contingent liability is matched by a related counter-claim or claim against a third party. In such cases, the amount of the provision is determined after taking into account the probable recovery under the claim if no significant uncertainty as to its measurability or collectability exists.

In this case, the provision of salary to employees of ₹ 680 lakhs will be ultimately collected from the client, as per the terms of the contract. Therefore, the liability of ₹ 680 lakhs is matched by the counter claim from the client. Hence, the provision for salary of employees should be made reducing the claim to be made from the client. It appears that the whole amount of ₹ 680 lakhs is recoverable from client and there is no significant uncertainty about the collection. Hence, the net charge to profit and loss account should be nil.

The opinion of the accountant regarding non-recognition of income of ₹ 680 lakhs is not as per AS-29 and AS-9. However, the concept of prudence will not be followed if ₹ 680 lakhs is simultaneously recognized as income. ₹ 680 lakhs is not the revenue at present but only reimbursement of claim. However the accountant is correct to the extent as that non-recognition of ₹ 680 lakhs as income will result in the under statement of profit.