

PAPER – 5: ADVANCED ACCOUNTING

Question No. 1 is compulsory

Answer any five questions from the remaining six questions.

Working Notes should form part of the answer.

Wherever necessary suitable assumptions should be made by the candidates.

Question 1

Answer the following questions:

- (a) The following information is available for Raja Ltd. for the accounting year 2009-10 and 2010-11:

Net profit for	₹
Year 2009-10	25,00,000
Year 2010-11	40,00,000

No. of shares outstanding prior to right issue 12,00,000 shares.

Right issue : One new share for each three outstanding i.e. 4,00,000 shares
: Right issue price ₹ 22
: Last date to exercise rights 30-6-2010

Fair value of one equity share immediately prior to exercise of rights on 30-6-2010 = ₹ 28.

You are required to compute the basic earnings per share for the years 2009-10 and 2010-11.*

- (b) Delta Ltd. issued 25,00,000 equity shares of ₹ 10 each at par. 7,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters P, Q & R in the ratio of 2 : 3 : 4 with firm underwriting of 50,000, 60,000 and 70,000 shares each respectively. Total subscription received 13,88,000 shares including marked application and excluding firm underwriting. Marked applications were as follows:

P 3,00,000
Q 3,50,000
R 4,50,000

Unmarked and surplus applications to be distributed in gross liability ratio.

Ascertain the liability of each underwriter.

* The requirement of the question was missing in the question paper and has been added later.

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- (c) *Brahma Limited has three departments and submits the following information for the year ending on 31st March, 2011:*

Particulars	A	B	C	Total (₹)
Purchases (units)	5,000	10,000	15,000	8,40,000
Purchases (Amount)				
Sales (units)	5,200	9,800	15,300	
Selling price (₹ per unit)	40	45	50	
Closing Stock (Units)	400	600	700	

You are required to prepare departmental trading account of Brahma Limited assuming that the rate of profit on sales is uniform in each case.

- (d) *A Company has its share capital divided into shares of ₹ 10 each. On 1st April 2010, it granted 20,000 employees' stock options at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 1st January 2011 to 15th March 2011. The employees exercised their options for 18,000 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Pass Journal entries with regard to employees' stock options.*
(4 x 5 = 20 Marks)

Answer

- (a) **Computation of basic earnings per share (EPS)**

	Year 2009-10 (₹)	Year 2010-11 (₹)
EPS for the year 2009-10 as originally reported = $\frac{\text{Net profit of the year attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$ = $\frac{\text{₹ 25,00,000}}{12,00,000 \text{ shares}}$	2.08	
EPS for the year 2009-10 restated for rights issue = $\frac{\text{₹ 25,00,000}}{(12,00,000 \text{ shares} \times 1.06)}$ *	1.97 (approx.)	
EPS for the year 2010-11 including effects of right issue		

* The number of equity shares to be used in calculating basic earnings per share for periods prior to the rights issue is the number of equity shares outstanding prior to the issue, multiplied by the adjustment factor. The adjustment factor has been calculated in Working Note 2.

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$= \frac{40,00,000}{\frac{₹ 12,00,000}{1.06} + \frac{₹ 16,00,000}{\frac{9}{12}}}$		2.64 (approx.)
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Working Notes:

1. Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights} + \text{total amount received from exercise}}{\text{Number of shares outstanding prior to exercise} + \text{number of shares issued in the exercise}}$$

$$= \frac{(\text{₹ } 28 \times 12,00,000 \text{ shares}) + (\text{₹ } 22 \times 4,00,000 \text{ shares})}{12,00,000 \text{ shares} + 4,00,000 \text{ shares}} = \text{₹ } 26.50$$

2. Computation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-right value per share}}$$

$$= \frac{\text{₹ } 28}{\text{₹ } 26.5} = 1.06 \text{ (approx.)}$$

(b) Calculation of liability of underwriters

	(In shares)			
	P	Q	R	Total
Gross liability	4,00,000	6,00,000	8,00,000	18,00,000
Less: Firm underwriting	(50,000)	(60,000)	(70,000)	(1,80,000)
	3,50,000	5,40,000	7,30,000	16,20,000
Less: Marked applications received	(3,00,000)	(3,50,000)	(4,50,000)	(11,00,000)
	50,000	1,90,000	2,80,000	5,20,000
Less: Unmarked applications (In gross liability ratio 4:6:8)	(64,000)	(96,000)	(1,28,000)	(2,88,000)
Balance	(14,000)	94,000	1,52,000	2,32,000
Excess of P distributed to Q & R in ratio (3:4)	14,000	(6,000)	(8,000)	-
Net liability (other than firm underwriting)	-	88,000	1,44,000	2,32,000
Add: Firm underwriting	50,000	60,000	70,000	1,80,000
Total liability of underwriters				

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including firm underwriting	50,000	1,48,000	2,14,000	4,12,000
Total liability in amount @ ₹ 10 each	₹ 5,00,000	₹ 14,80,000	₹ 21,40,000	₹ 41,20,000

(c) Departmental Trading Account for the year ended 31st March, 2011

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Opening Stock (W.N.4)	14,400	10,800	30,000	By Sales	2,08,000	4,41,000	7,65,000
To Purchases (W.N.2)	1,20,000	2,70,000	4,50,000	By Closing stock (W.N.4)	9,600	16,200	21,000
To Gross profit	<u>83,200</u>	<u>1,76,400</u>	<u>3,06,000</u>				
	<u>2,17,600</u>	<u>4,57,200</u>	<u>7,86,000</u>		<u>2,17,600</u>	<u>4,57,200</u>	<u>7,86,000</u>

Working Notes:

(1) Profit Margin Ratio

Selling price of units purchased:		₹
Department A	(5,000 units x ₹ 40)	2,00,000
Department B	(10,000 units x ₹ 45)	4,50,000
Department C	(15,000 units x ₹ 50)	<u>7,50,000</u>
Total selling price of purchased units		14,00,000
Less: Purchases		<u>(8,40,000)</u>
Gross profit		<u>5,60,000</u>

$$\text{Profit margin ratio} = \frac{\text{Gross profit}}{\text{Selling price}} \times 100 = \frac{5,60,000}{14,00,000} \times 100 = 40\%$$

(2) Statement showing department-wise per unit cost and purchase cost

Particulars	A	B	C
Selling price per unit (₹)	40	45	50
Less: Profit margin @ 40% (₹)	(16)	(18)	(20)
Purchase price per unit (₹)	24	27	30
No. of units purchased	5,000	10,000	15,000
Purchases (purchase cost per unit x units purchased)	1,20,000	2,70,000	4,50,000

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(3) Statement showing calculation of department-wise Opening Stock (in units)

Particulars	A	B	C
Sales (Units)	5,200	9,800	15,300
Add: Closing Stock (Units)	400	600	700
	5,600	10,400	16,000
Less: Purchases (Units)	(5,000)	(10,000)	(15,000)
Opening Stock (Units)	600	400	1,000

(4) Statement showing department-wise cost of Opening and Closing Stock

Particulars	A	B	C
Cost of Opening Stock (Rs.)	600 x 24 14,400	400 x 27 10,800	1,000 x 30 30,000
Cost of Closing Stock (Rs.)	400 x 24 9,600	600 x 27 16,200	700 x 30 21,000

(d) Journal Entries

Date	Particulars	Dr.	Cr.
		₹	₹
April 1, 2010	Employees compensation expense A/c Dr. To Employees stock option outstanding A/c (Being grant of 20,000 stock option to employees at ₹ 40 when market price is ₹ 130)	18,00,000	18,00,000
Jan. 1, 2011 to Mar. 15, 2011	Bank A/c Dr. Employees stock option outstanding A/c Dr. To Equity share capital A/c To Securities premium A/c (Being allotment to employees 18,000 equity shares of ₹ 10 each at a premium of ₹ 120 per share in exercise of their stock options)	7,20,000 16,20,000	1,80,000 21,60,000
Mar.16, 2011	Employees stock option outstanding A/c Dr. To Employees compensation expense A/c (Being entry for lapse of stock options for 2,000 shares)	1,80,000	1,80,000

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Mar.31,2011	Profit & Loss A/c	Dr.	16,20,000	
	To Employees compensation expense A/c			16,20,000
	(Being transfer of employees compensation expense to profit & loss account)			

Question 2

A and B are partners of AB & Co. sharing profits and losses in the ratio of 2:1 and C and D are partners of CD & Co. sharing profits and losses in the ratio of 3:2. On 1st April 2011, they decided to amalgamate and form a new firm M/s. AD & Co. wherein all the partners of both the firm would be partners sharing profits and losses in the ratio of 2:1:3:2 respectively to A,B,C and D.

Their balance sheets on that date were as under:

Liabilities	AB & Co. (₹)	CD & Co. (₹)	Assets	AB & Co. (₹)	CD & Co. (₹)
Capitals					
A	1,50,000		Building	75,000	90,000
B	1,00,000		Machinery	1,20,000	1,00,000
C		1,20,000	Furniture	15,000	12,000
D		80,000	Stock	24,000	36,000
Reserve	66,000	54,000	Debtors	65,000	78,000
Creditors	52,000	35,000	Due from CD		
Due to AB & Co.		47,000	& Co.	47,000	
			Cash at Bank	18,000	15,000
			Cash in hand	4,000	5,000
	3,68,000	3,36,000		3,68,000	3,36,000

The amalgamated firm took over the business on the following terms:

- Building was taken over at ₹ 1,00,000 and ₹ 1,25,000 of AB & Co. and CD & Co. respectively. And machinery was taken over at ₹ 1,25,000 and ₹ 1,10,000 of AB & Co. and CD & Co. respectively.
- Goodwill of AB & Co. was worth ₹ 75,000 and that of CD & Co. was worth ₹ 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.
- Provision for doubtful debts has to be carried forward at ₹ 5,000 in respect of debtors of AB & Co. and ₹ 8,000 in respect of CD & Co.

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You are required :

- (i) Compute the adjustments necessary for goodwill.
- (ii) Pass the Journal Entries in the books of AD & Co. assuming that excess/deficit capital (taking D's capital as base) with reference to share in profits are to be transferred to current accounts. (16 Marks)

Answer

- (i) Adjustment for raising & writing off of goodwill

	Goodwill raised in old profit sharing ratio			Goodwill written off in new ratio	Difference
	AB & Co.	CD & Co.	Total	AD & Co.	
	₹	₹	₹	₹	₹
A	50,000		50,000 Cr.	31,250 Dr.	18,750 Cr.
B	25,000		25,000 Cr.	15,625 Dr.	9,375 Cr.
C		30,000	30,000 Cr.	46,875 Dr.	16,875 Dr.
D		<u>20,000</u>	<u>20,000 Cr.</u>	<u>31,250 Dr.</u>	11,250 Dr.
	<u>75,000</u>	<u>50,000</u>	<u>1,25,000</u>	<u>1,25,000</u>	

- (ii) In the books of AD & Co.

Journal Entries

Date	Particulars	Debit	Credit
		₹	₹
April 1, 2011	Building A/c Dr.	1,00,000	
	Machinery A/c Dr.	1,25,000	
	Furniture A/c Dr.	15,000	
	Stock A/c Dr.	24,000	
	Debtors A/c Dr.	65,000	
	CD & Co. A/c Dr.	47,000	
	Cash at bank A/c Dr.	18,000	
	Cash in hand A/c Dr.	4,000	
	To Provision for doubtful debts A/c		5,000
	To Creditors A/c		52,000
	To A's capital A/c (W.N. 2a)		2,10,667
	To B's capital A/c (W.N.2 a)		1,30,333
	(Being the sundry assets and liabilities of AB & Co. taken over at the values stated as per the agreement)		

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April 1, 2011	Building A/c	Dr.	1,25,000	
	Machinery A/c	Dr.	1,10,000	
	Furniture A/c	Dr.	12,000	
	Stock A/c	Dr.	36,000	
	Debtors A/c	Dr.	78,000	
	Cash at bank A/c	Dr.	15,000	
	Cash in hand A/c	Dr.	5,000	
	To Provision for doubtful debts A/c			8,000
	To Creditors A/c			35,000
	To AB & Co. A/c			47,000
	To C's capital A/c (W.N. 2b)			1,74,600
	To D's capital A/c (W.N. 2b)			1,16,400
	(Being the sundry assets and liabilities of CD & Co. taken over at the values stated as per the agreement)			
	C's capital A/c	Dr.	16,875	
	D's capital A/c	Dr.	11,250	
	To A's capital A/c			18,750
	To B's capital A/c			9,375
	(Being adjustment in capital accounts of the partners on account of goodwill)			
	AB & Co. A/c	Dr.	47,000	
	To CD & Co. A/c			47,000
	(Being mutual indebtedness of AB & Co. and CD & Co. cancelled)			
	A's Capital A/c	Dr.	1,24,267	
	To A's Current A/c			1,24,267
	(Being excess amount in A's capital A/c transferred to A's current A/c - refer W.N.3)			
	B's Capital A/c	Dr.	87,133	
	To B's Current A/c			87,133
	(Being excess amount in B's capital A/c transferred to B's current A/c - refer W.N.3)			

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Working Notes:

(1) Profit on Revaluation

	AB & Co.	CD & Co.
	₹	₹
Building (1,00,000 – 75,000) (1,25,000 – 90,000)	25,000	35,000
Machinery (1,25,000 – 1,20,000) (1,10,000 – 1,00,000)	5,000	10,000
	30,000	45,000
Less: Provision for doubtful debts	(5,000)	(8,000)
	25,000	37,000

(2) Balance of capital accounts of partners on transfer of business to AD & Co.

(a) AB & Co.

	A's Capital	B's Capital
	₹	₹
Balance as per the Balance Sheet	1,50,000	1,00,000
Reserves in the profits and losses sharing ratio	44,000	22,000
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	<u>16,667</u>	<u>8,333</u>
	<u>2,10,667</u>	<u>1,30,333</u>

(b) CD & Co.

	C's Capital	D's Capital
	₹	₹
Balance as per the Balance Sheet	1,20,000	80,000
Reserves in the profits and losses sharing ratio	32,400	21,600
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	<u>22,200</u>	<u>14,800</u>
	<u>1,74,600</u>	<u>1,16,400</u>

(3) Calculation of capital of each partner in the new firm

Particulars	A	B	C	D
	₹	₹	₹	₹
Balance as per W.N.2	2,10,667	1,30,333	1,74,600	1,16,400

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Adjustment for goodwill	18,750	9,375	(16,875)	(11,250)
	2,29,417	1,39,708	1,57,725	1,05,150
Total capital ₹ 4,20,600* in the new ratio of 2:1:3:2	(1,05,150)	(52,575)	(1,57,725)	(1,05,150)
Transfer to Current Account	1,24,267 Cr.	87,133 Cr.	-	-

* Taking D's capital as the base which is 2/8th of total capital; total capital will be 1,05,150 x 8/2 i.e ₹ 4,20,600.

Question 3

The Balance Sheet of X Limited as on 31st March 2011, was as follows:

<i>Liabilities</i>	<i>Amount (₹)</i>	<i>Assets</i>	<i>Amount (₹)</i>
<i>Authorised and subscribed capital: 10,000 Equity shares of ₹ 100 each fully paid</i>	10,00,000	<i>Fixed Assets:</i>	
<i>Unsecured loans:</i>		<i>Machineries</i>	3,50,000
<i>15% Debentures</i>	3,00,000	<i>Current Assets:</i>	
<i>Accrued interest</i>	45,000	<i>Stock</i>	2,53,000
<i>Current Liabilities:</i>		<i>Debtors</i>	2,30,000
<i>Creditors</i>	52,000	<i>Bank</i>	20,000
<i>Provision for income tax</i>	36,000	<i>Profit & loss A/c</i>	5,80,000
	14,33,000		14,33,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

- (i) Each share be sub-divided into 10 fully paid up equity share of ₹ 10 each.*
- (ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debentureholders and creditors as necessary.*
- (iii) Out of shares surrendered 10,000* shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.*

* In the question paper, it was wrongly printed as 1,000 shares which has been corrected in the question given above.

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- (iv) *The claims of the debentureholders shall be reduced by 50%. In consideration of the reduction, the debentureholder shall receive Preference Shares of ₹ 1,00,000 which are converted out of shares surrendered.*
- (v) *Creditors claim shall be reduced by 25%. Remaining creditors are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.*
- (vi) *Balance of Profit and Loss account to be written off.*
- (vii) *The shares surrendered and not re-issued shall be cancelled.*

Pass Journal Entries giving effect to the above and the resultant Balance Sheet. (16 Marks)

Answer

In the books of X Limited

Journal Entries

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c Dr. To Share Surrender A/c To Equity Share Capital (₹ 10) A/c (Sub-division of 10,000 equity shares of ₹ 100 each into 1,00,000 equity shares of ₹ 10 each and surrender of 50,000 of such sub-divided shares as per capital reduction scheme)		10,00,000	5,00,000 5,00,000
(ii)	15% Debentures A/c Dr. Accrued Interest A/c Dr. To Reconstruction A/c (Transferred 50% of the claims of the debentureholders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)		1,50,000 22,500	1,72,500
(iii)	Creditors A/c Dr. To Reconstruction A/c (Transferred claims of the creditors to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)		52,000	52,000
(iv)	Share Surrender A/c Dr. To 10% Preference Share Capital A/c To Equity Share Capital A/c		5,00,000	1,00,000 39,000

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	To Reconstruction A/c (Issued preference and equity shares to discharge the claims of the debentureholders and the creditors respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)		3,61,000
(v)	Reconstruction A/c Dr. To Profit & Loss A/c To Capital Reserve A/c (Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)	5,85,500	5,80,000 5,500

X Limited (and reduced)

Balance Sheet as on

Liabilities	₹	Assets	₹
Share capital:		Fixed Assets:	
Issued capital:		Machineries	3,50,000
53,900 Equity shares of ₹ 10 each	5,39,000	Current Assets:	
10,000, 10% Preference shares of ₹ 10 each	1,00,000	Stock	2,53,000
(all the above shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment received in cash)		Debtors	2,30,000
Reserves and Surplus:		Bank	20,000
Capital Reserve	5,500		
Unsecured loans:			
15% Debentures	1,50,000		
Accrued interest	22,500		
Current liabilities and provision:			
Provision for income tax	36,000		
	8,53,000		8,53,000

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Question 4

- (a) The summarized Balance Sheet of Full Stop Limited as on 31st March 2011, being the date of voluntary winding up is as under:

Liabilities	(₹)	Assets	(₹)
Share capital:		Land & building	5,20,000
5,000, 10% Cumulative		Plant & machinery	7,80,000
Preference shares of ₹100		Stock in trade	3,25,000
each fully paid up	5,00,000	Book debts	10,25,000
Equity share capital:		Profit & loss account	5,50,000
5,000 Equity shares of ₹ 100			
each ₹ 60 per share called			
and paid up	3,00,000		
5,000 Equity shares of ₹100			
each ₹ 50 per share called up			
and paid up	2,50,000		
Securities premium	7,50,000		
10% Debentures	2,10,000		
Preferential creditors	1,05,000		
Bank overdraft	4,85,000		
Trade creditors	6,00,000		
	32,00,000		32,00,000

Preference dividend is in arrears for three years. By 31-03-2011, the assets realized were as follows:

	₹
Land & building	6,20,000
Stock in trade	3,10,000
Plant & machinery	7,10,000
Book debts	6,60,000

Expenses of liquidation are ₹ 86,000. The remuneration of the liquidator is 2% of the realization of assets. Income tax payable on liquidation is ₹ 67,000. Assuming that the final payments were made on 31-03-2011, prepare the Liquidator's Statement of Account. (8 Marks)

- (b) XYZ Company is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All

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expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars prepare branch account in the books of Head Office.

	(₹)		(₹)
Stock on 1 st April 2010 (invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1 st April, 2010	18,000	Expenses paid by head office:	
Cash in hand as on 1 st April, 2010	800	Rent	1,800
Office furniture on 1 st April, 2010	3,000	Salary	3,200
Goods invoiced from the head office (invoice price)	1,60,000	Stationery & Printing	800
Goods return to Head Office	2,000	Petty expenses paid by the branch	600
Goods return by debtors	960	Depreciation to be provided on branch furniture	
Cash received from debtors	60,000	at 10% p.a.	
Cash Sales	1,00,000	Stock on 31 st March, 2011	
Credit sales	60,000	(at invoice price)	28,000

(8 Marks)

Answer

(a) Liquidator's Statement of Account

Receipts	₹	Payments	₹
Land & building	6,20,000	Liquidator's remuneration	46,000
Stock in trade	3,10,000	Liquidation expenses	86,000
Plant & machinery	7,10,000	10% Debentures	2,10,000
Book debts	6,60,000	Preferential creditors	1,05,000
		Income tax payable	67,000
		Bank overdraft	4,85,000
		Trade creditors	6,00,000
		Preference shareholders:	
		Capital	5,00,000
		Arrears of preference dividend for 3 years	1,50,000

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		Refund on 5,000 shares of ₹ 60 paid up @ ₹ 10.10 per share (Refer W.N.)	50,500
		Refund on 5,000 shares of ₹ 50 paid up @ ₹ 0.10 per share (Refer W.N.)	500
	23,00,000		23,00,000

Working Note:

	₹
Total equity capital paid up (3,00,000 + 2,50,000)	5,50,000
Less: Balance available after payment to secured, unsecured, preferential creditors and preference shareholders (23,00,000 – 46,000 – 86,000 – 2,10,000 – 1,05,000 – 67,000 – 4,85,000 – 6,00,000 – 5,00,000 – 1,50,000)	(51,000)
Loss to be borne by 10,000 equity shareholders	<u>4,99,000</u>
Loss per share	₹ 49.90
Hence, amount of refund on ₹ 50 per share paid up (₹ 50 – ₹ 49.90)	₹ 0.10
Amount of refund on ₹ 60 per share paid up (₹ 60 – ₹ 49.90)	₹ 10.10

(b) In the books of Head Office – XYZ Company
Kolkata Branch Account (at invoice)

	₹		₹
To Balance b/d		By Stock reserve (opening)	6,000
Stock	30,000	By Remittances:	
Debtors	18,000	Cash Sales	1,00,000
Cash in hand	800	Cash from Debtors	<u>60,000</u>
Furniture	3,000	By Goods sent to branch (loading)	32,000
To Goods sent to branch	1,60,000	By Goods returned by branch (Return to H.O.)	2,000
To Goods returned by branch (loading)	400	By Balance c/d	
To Bank (expenses paid by H.O.)		Stock	28,000
Rent	1,800	Debtors	16,880
Salary	3,200	Cash (800-600)	200
		Furniture (3,000-300)	2,700

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : MAY, 2011

Stationary & printing <u>800</u>	5,800		
To Stock reserve (closing)	5,600		
To Profit transferred to General Profit & Loss A/c	24,180		
	<u>2,47,780</u>		<u>2,47,780</u>

Working Note:

Debtors Account

	₹		₹
To Balance b/d	18,000	By Cash account	60,000
To Sales account (credit)	60,000	By Sales return account	960
		By Discount allowed account	160
		By Balance c/d	16,880
	<u>78,000</u>		<u>78,000</u>

Note: It is assumed that goods returned by branch are at invoice price.

Question 5

From the following information prepare the Profit & Loss Account of Jawahar Bank Limited for the year ended 31st March, 2011. Also give necessary Schedules.

	Figures are in ₹ thousands
Interest earned on term loans	17.26
Interest earned on term loans classified as NPA	4.52
Interest received on term loans classified as NPA	2.04
Interest on cash credits and overdrafts	38.54
Interest earned but not received on cash credit and overdraft treated as NPA	8.39
Interest on deposits	27.20
Commission	1.97
Profit on sale of investments	11.76
Profit on revaluation of investments	2.76
Income from investments	15.53
Salaries, bonus and allowances	18.75
Rent, taxes and lighting	1.70

PAPER – 5 : ADVANCED ACCOUNTING

<i>Printing and stationary</i>	0.75
<i>Director's fees, allowances expenses</i>	1.33
<i>Law charges</i>	0.22
<i>Repairs and maintenance</i>	0.18
<i>Insurance</i>	0.30
<i>Other information:</i>	
<i>Make necessary provision on risk assets:</i>	
(i) <i>Sub-standard</i>	15.00
(ii) <i>Doubtful for one year</i>	7.00
(iii) <i>Doubtful for two years</i>	2.40
(iv) <i>Loss assets</i>	0.65
<i>Investments</i>	3700

Bank should not keep more than 25% of its investments as 'held-for-maturity' investment. The market value of its best 75% investments is ₹9,00,000 as on 31st March, 2011. (16 Marks)

Answer

Jawahar Bank Limited

Profit & Loss Account for the year ended 31st March, 2011

	Schedule	₹ '000s
I. Income		
Interest earned	13	60.46
Other income	14	16.49
Total		76.95
II. Expenditure		
Interest expended	15	27.20
Operating expenses	16	23.23
Provisions & contingencies (Refer W.N.)		1879.27
Total		1929.70
III. Profit/Loss		(1852.75)
IV. Appropriations		Nil

Schedule 13 – Interest Earned

	₹ '000s
Interest / discount on advances bills	
Interest on term loans [17.26- (4.52-2.04)]	14.78
Interest on cash credits and overdrafts (38.54-8.39)	30.15

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : MAY, 2011

Income on investments	15.53
	60.46
Note : Interest on non-performing assets is recognized on receipt basis.	

Schedule 14 – Other Income

	₹ '000s
Commission, exchange and brokerage	1.97
Profit on sale of investments	11.76
Profit on revaluation of investments	2.76
	16.49

Schedule 15 – Interest Expended

	₹ '000s
Interest on deposits	27.20

Schedule 16 – Operating Expenses

	₹ '000s
Payments to and provision for employees - salaries, bonus and allowances	18.75
Rent, taxes and lighting	1.70
Printing & stationery	0.75
Director's fee, allowances and expenses	1.33
Law charges	0.22
Repairs & maintenance	0.18
Insurance	0.30
	23.23

Working Note:

Provisions & Contingencies		₹ '000s
Provision for non-performing assets*		
Sub-standard (15 x 10%)		1.50

* 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 different categories of non-performing advances. Accordingly, advances classified as "sub-standard" will attract a provision of 15 per cent (as against the existing 10 per cent) and 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). 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) and 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).

PAPER – 5 : ADVANCED ACCOUNTING

Doubtful for one year (7 x 20%)		1.40
Doubtful for two years (2.40 x 30%)		0.72
Loss assets (0.65 x 100%)		0.65
		4.27
Diminution in the value of current Investments:		
Cost 75% of ₹ 3,700 thousands **	27,75	
Less: Market value	(900)	1875.00
		1879.27

Note: It is assumed that all sub-standard and doubtful assets are fully secured.

Question 6

- (a) Lessee Ltd. took a machine on lease from Lessor Ltd., the fair value being ₹ 7,00,000. The economic life of machine as well as the lease term is 3 years. At the end of each year Lessee Ltd. pays ₹ 3,00,000. The Lessee has guaranteed a residual value of ₹ 22,000 on expiry of the lease to the Lessor. However Lessor Ltd., estimates that the residual value of the machinery will be only ₹ 15,000. The implicit rate of return is 15% p.a. and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively.

Calculate the value of machinery to be considered by Lessee Ltd. and the finance charges in each year. (8 Marks)

- (b) Modern Insurance Company's Fire Insurance division provide the following information, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2011.

	Direct Business	Re-insurance
	₹	₹
Claim paid during the year	35,30,000	8,20,000
Claim received		3,20,000
Claim payable		
1 st April, 2010	8,23,000	58,000
31 st March, 2011	8,75,000	87,000
Claim receivable:		
1 st April, 2010	-	85,000
31 st March, 2011	-	1,42,000

** 25% of investments classified as 'held for maturity' need not be marked to market as per RBI Guidelines. However, the remaining 75% investments have been marked to market according to RBI Guidelines.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : MAY, 2011

Expenses of management (Includes ₹ 38,000 Surveyor's fee and ₹ 42,000 Legal expenses for settlement of claims)	3,45,000	
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(8 Marks)

Answer

- (a) As per para 11 of AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

Value of machinery

In the given case, fair value of the machinery is ₹ 7,00,000 and the net present value of minimum lease payments is ₹ 6,99,054*. As the present value of the machine is less than the fair value of the machine, the machine will be recorded at value of ₹ 6,99,054.

Calculation of finance charges for each year

Year	Finance charge	Payment	Reduction in outstanding liability	Outstanding liability
	₹	₹	₹	₹
1 st year beginning	-	-	-	6,99,054
End of 1 st year	1,04,858	3,00,000	1,95,142	5,03,912
End of 2 nd year	75,587	3,00,000	2,24,413	2,79,499
End of 3 rd year	41,925	3,00,000	2,58,075	21,424**

* Present value of minimum lease payments:

Annual lease rental x PV factor + Present value of guaranteed residual value

$$= ₹ 3,00,000 \times (0.869 + 0.756 + 0.657) + ₹ 22,000 \times (0.657)$$

$$= ₹ 6,84,600 + ₹ 14,454 = ₹ 6,99,054.$$

** The difference between this figure and guaranteed residual value (₹ 22,000) is due to approximation in computing the interest rate implicit in the lease.

PAPER – 5 : ADVANCED ACCOUNTING

(b) Modern Insurance Company (Abstract showing the amount of claims)

Net Claims incurred

	₹
Claims paid on direct business (35,30,000 + 38,000 + 42,000)	36,10,000
Add: Re-insurance	8,20,000
Add: Outstanding as on 31.3.2011	87,000
Less: Outstanding as on 1.4.2010	<u>(58,000)</u>
	8,49,000
	44,59,000
Less : Claims received from re-insurance	3,20,000
Add: Outstanding as on 31.3.2011	1,42,000
Less: Outstanding as on 1.4.2010	<u>(85,000)</u>
	(3,77,000)
	40,82,000
Add : Outstanding direct claims at the end of the year	<u>8,75,000</u>
	49,57,000
Less : Outstanding claims at the beginning of the year	<u>(8,23,000)</u>
Net claims incurred	<u>41,34,000</u>

Question 7

Answer any four of the following:

- XYZ Ltd. had issued 30,000, 15% convertible debentures of ₹ 100 each on 1st April, 2008. The debentures are due for redemption on 1st March, 2011. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentureholders to convert 20% of their holding into equity shares (Nominal Value ₹ 10) at a price of ₹ 15 per share. Debentureholders holding 2500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debentureholders exercising the option to the maximum.
- Siva Limited received a grant of ₹ 1,500 lakhs during the last accounting year (2009-10) from Government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However during the year 2010-11, it was found that the conditions of the grant were not complied with and the grant had to be refunded to the Government in full. Elucidate the current accounting treatment with reference to the provisions of AS-12.
- Carrying amount of a machine is ₹ 1,00,000 (Historical cost less depreciation). The machine is expected to generate ₹ 25,000 net cash flow for 5 years. The net realizable

value (or net selling price) of the machine on current date is ₹ 85,000. The enterprises required rate of earning is 10% p.a. State the value at which the enterprise should carry its machine. The present value factors at 10% are 0.909, 0.826, 0.751, 0.683 and 0.621 at the end of first, second, third, fourth and fifth year respectively.

- (d) A company signed an agreement with the employees' union on 01-09-2010 for revision of wages with retrospective effect from 01-04-2009. This would cost the company an additional liability of ₹ 10 lakhs per annum. Is a disclosure necessary for the amount paid in 2010-11.
- (e) Why goods are marked on invoice price by the head office while sending goods to the branch? (4 x 4 =16 Marks)

Answer

- (a) Calculation of number of equity shares allotted to be debentureholders

	No. of debenture
Total number of debentures	30,000
Less: Debentureholders not opted for conversion	<u>(2,500)</u>
	<u>27,500</u>
Option for conversion	20%
	5,500
Number of debentures for conversion $(27,500 \times \frac{20}{100})$	
Redemption value at a premium of 5% $(5,500 \times ₹ 105)$	₹ 5,77,500
Number of equity shares to be allotted $\frac{₹ 5,77,500}{₹ 15}$	38,500 shares

- (b) As per para 11 of AS 12 'Accounting for Government Grants', Government Grant may, sometimes, become refundable if certain conditions are not fulfilled. A government grant that becomes refundable is treated as extra-ordinary item as per AS, 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.

The amount refundable in respect of a government grant related to revenue is applied first against any unamortized deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement.

In the given case, the amount of refund of grant of ₹ 1,500 lakhs should be charged to the profit and loss account in the year 2010-2011 as an extraordinary item.

- (c) Value in use* = ₹ 25,000 x (0.909+0.826+0.751+0.683+0.621) = ₹ 94,750

Net selling price = ₹ 85,000

Recoverable amount is the higher of an asset's value in use and its net selling price i.e. ₹ 94,750.

Carrying value of a machine = ₹ 1,00,000 (recorded in the books)

Carrying amount is the amount at which an asset is recognized in the balance sheet after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon. In the given case, carrying amount of machine will be lower of its recoverable amount ₹ 94,750 and its book value i.e. ₹ 1,00,000. Therefore, the enterprise should carry its machine at value of ₹ 94,750.

- (d) It is given that revision of wages took place on 1st September, 2010 with retrospective effect from 1.4.2009. The arrear of wages payable for the period 01.4.2009 to 31.3.2010, cannot be taken as an error or omission in the preparation of financial statement and hence this expenditure cannot be taken as a prior period item. Additional wages liability of ₹ 20 lakhs should be included in current years' wages.

It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Although abnormal in amount, such an expense does not qualify as an extra-ordinary item.

However, as per AS 5 (Revised), "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Therefore, necessary disclosure should be made for the additional liability amounting ₹ 20 lakhs.

- (e) Goods are marked on invoice price to achieve the following objectives:
- (i) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and
 - (ii) To have effective control on stock i.e stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.
 - (iii) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

* Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset.