

MOCK TEST PAPER – 1

PCC: GROUP – I

PAPER – 1: ADVANCED ACCOUNTING

Question No. 1 is compulsory.

Answer any five questions from the remaining six questions.

Working notes should form part of the answer.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) An Om limited company manufacturing fancy bedsheets had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

Comment on the valuation of stocks by the company.

- (b) From the following information relating to Omega Ltd., calculate Diluted Earnings Per Share as per AS 20:

Net Profit for the current year	₹ 2,00,00,000
Number of equity shares outstanding	40,00,000
Basic earnings per share	₹ 5.00
Number of 11% convertible debentures of ₹ 100 each	50,000
Each debenture is convertible into 8 equity shares.	
Interest expense for the current year	₹ 5,50,000
Tax saving relating to interest expense (30%)	₹ 1,65,000

- (c) During the year 2010-11, A Limited incurred the following expenses on machinery:
₹ 2.50 lacs as routine repairs and ₹ 75,000 on partial replacement of a part.
₹ 7 lacs on replacement of part of machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

(d)

	Exchange Rate per \$
Goods purchased on 1.1.2010 of US \$ 10,000	₹ 45
Exchange rate on 31.3.2010	₹ 44
Date of actual payment 7.7.2010	₹ 43

Ascertain the loss/gain for financial years 2009-10 and 2010-11, also give their treatment as per AS 11.

(4 × 5 = 20 Marks)

2. The Balance Sheet of Sumit Ltd. as on 31st March, 2011 is as under:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Authorised and issued share capital		Goodwill	3,00,000
20,000 equity shares of ₹ 100 each	20,00,000	Plant and machinery	18,00,000
10,000 preference shares (7%) of ₹ 100 each	10,00,000	Stock	3,00,000
Sundry creditors	7,00,000	Debtors	7,50,000
Bank overdraft	3,00,000	Cash	1,50,000
		Profit and loss account	<u>7,00,000</u>
	<u>40,00,000</u>		<u>40,00,000</u>

Two years' preference dividends are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and dividend distribution, provided the capital base is reduced.

An internal reconstruction scheme as follows was agreed by all concerned:

- Creditors agreed to forego 50% of the claim.
- Preference shareholders withdrew arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reorganization in case equity shareholders' loss exceed 50% on the application of the scheme.
- Bank agreed to convert overdraft into term loan to the extent required for making current ratio equal to 2 : 1.
- Revalued figure for plant and machinery was accepted as ₹ 15,00,000.
- Debtors to the extent of ₹ 4,00,000 were considered good.
- Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganization.

Show:

- Total loss to be borne by the equity and preference shareholders for the reorganization;
- Share of loss to the individual classes of shareholders;
- New structure of share capital after reorganization;
- Working capital of the reorganized Company; and

(e) A proforma balance sheet after reorganization

(16 Marks)

3. A, B, C and D were partners sharing profits and losses in the ratio of 3:3:2:2. Following was the balance sheet as on 31st March, 2011:

Liabilities	₹	₹	Assets	₹	₹
Sundry creditors		15,500	Sundry debtors	16,000	
A's loan		10,000	Less: Provision for bad debts	<u>500</u>	15,500
Capital accounts:			Stock in trade		10,000
A	20,000		Cash at bank		2,000
B	<u>15,000</u>	35,000	Furniture and fixture		4,000
			Trade mark		7,000
			Capital accounts:		
			C	16,000	
			D	<u>6,000</u>	<u>22,000</u>
		<u>60,500</u>			<u>60,500</u>

On 31st March, 2011, the partnership firm was dissolved and B was appointed to realise the assets and pay off the liabilities. He was entitled to receive 5% commission on the amount finally paid to other partners as capital. He was to bear the expenses of realization.

The assets realised were as follows: sundry debtors ₹ 11,000; stock ₹ 8,000; furniture and fixture ₹ 1,000; trade mark ₹ 4,000; creditors were paid off in full; in addition a contingent liability for bills receivable discounted, materialized to the extent of ₹ 2,500. Also there was a joint life insurance policy for ₹ 30,000 This was surrendered for ₹ 3,000. Expenses of realisation amounted to ₹ 500. 'C' was insolvent, but ₹ 3,700 were recovered from his estate.

You are required to show the following accounts in the book of partnership firm:

1. Realisation account
2. Cash account
3. Partners' capital accounts.

(16 Marks)

4. Following is the Receipts and Payments Account of Aman Club for the year ended 31st March, 2011:

Receipts	Amount (₹)	Payments	Amount (₹)
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000

Bank	3,850	Printing and stationery	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephone and fax	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of fixed assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at coffee room	10,70,000	Garden upkeep	8,000
Wines and spirits	5,10,000	Membership fee	4,000
Swimming pool	80,000	Insurance	5,000
Tennis court	1,02,000	Electricity	28,000
		Closing balance:	
		Cash	8,000
		Bank	<u>2,24,600</u>
	<u>21,53,600</u>		<u>21,53,600</u>

Following additional information is provided to you:

(i) Assets and liabilities as on 31.3.2011 were as follows:

	₹
Fixed assets	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Gratuity fund	1,50,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000

(ii) Subscription received in advance as on 31.3.2011 was ₹18,000.

(iii) Outstanding subscription as on 31.3.2011 was ₹7,000.

(iv) Outstanding expenses as on 31.3.2011 are:

Salaries	:	₹ 8,000
Electricity	:	₹ 15,000

- (v) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31.3.2011.
- (vi) The cost of assets sold as on 1.4.2010 was ₹10,000.
- (vii) Depreciation was provided @ 10% p.a. on fixed assets on written down value basis.
- (viii) A sum of ₹20,000 received in October, 2010 as entrance donation from an applicant was to be refunded, as he has not fulfilled the requisite membership qualification. The refund was made on 3.6.2011.
- (ix) Purchases made during the year 2010-11 amounted to ₹15,00,000.
- (x) The value of closing stock as on 31.3.2011 was ₹2,10,000.
- (xi) The Club as a matter of policy charges off to Income and Expenditure account, all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare:

- (i) Income and Expenditure account for the year ended 31st March, 2011.
 - (ii) Balance Sheet as on 31st March, 2011. (16 Marks)
5. (a) Agni Fire Insurance Co. Ltd. commenced its business on 1.4.2010. It submits you the following information for the year ended 31.3.2011:

	₹
Premiums received	15,00,000
Re-insurance premiums paid	1,00,000
Claims paid	7,00,000
Expenses of Management	3,00,000
Commission paid	50,000
Claims outstanding on 31.3.2011	1,00,000
Create reserve for unexpired risk @ 40%	
Prepare Revenue account for the year ended 31.3.2011.	

(8 Marks)

- (b) On 31st March, 2010, Uncertain Bank Ltd. had a balance of ₹ 9 crores in "rebate on bills discounted" account. During the year ended 31st March, 2011, Uncertain Bank Ltd. discounted bills of exchange of ₹ 4,000 crores charging interest at 18% per annum the average period of discount being for 73 days. Of these, bills of exchange of ₹ 600 crores were due for realisation from the acceptors/customers after 31st March, 2011, the average period outstanding after 31st March, 2011 being 365 days.

Uncertain Bank Ltd. asks you to pass journal entries and show the ledger accounts pertaining to :

- (i) discounting of bills of exchange and
- (ii) rebate on bills discounted. (8 Marks)

6 (a) From the data relating to a company which went into voluntary liquidation, you are required to prepare the liquidator's Final Statement of Account.

- (i) Cash with liquidators (after all assets are realised and secured creditors and debentureholders are paid) is ₹ 7,50,000.
- (ii) Preferential creditors to be paid ₹ 35,000.
- (iii) Other unsecured creditors ₹ 2,30,000.
- (iv) 5,000, 10% preference shares of ₹ 100 each fully paid.
- (v) 3,000 equity shares of ₹ 100 each, ₹ 75 per share paid up.
- (vi) 7,000 equity shares of ₹ 100 each, ₹ 60 per share paid up.
- (vii) Liquidator's remuneration is 2% on payments to preferential and other unsecured creditors. (8 Marks)

(b) The following transactions by Mr. Mohan took place during the year ended 31st March, 2011:

1 st April	Purchased ₹12,00,000 8% bonds @ ₹80.5 cum-interest. Interest is payable on 1 st November and 1 st May.
12 th April	Purchased 1,00,000 equity shares of ₹10 each in X Ltd. for ₹40,00,000.
1 st May	Received half year's interest on 8% bonds.
15 th May	X Ltd. made a bonus issue of three equity shares for every two held. Mr. Malamaal sold 1,25,000 bonus shares @ ₹20 each.
1 st October	Sold ₹3,00,000 8% bonds @ ₹81 ex-interest.
1 st November	Received half year's bond interest.
1 st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment accounts in the books of Mr. Mohan for the year ended 31st March, 2011. (8 Marks)

7. Answer any four out of five

- (a) A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2011.

	(₹ in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by ICAI.

- (b) A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?
- (c) Rohan Limited wishes to obtain a machine costing ₹ 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Ashok Ltd., for a lease rental for ₹ 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Rohan Limited is not sure about the treatment of these lease rentals and seeks your advise.
- (d) N Co. Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.10.2010 it granted 20,000 employees' stock option at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 10th December, 2010 and 31st March, 2011. The employees exercised their options for 16,000 shares only and the remaining options lapsed. The company closes its books on 31st March every year.

Show Journal entries (with narration) as would appear in the books of the company upto 31st March, 2011.

- (e) Himani Ltd. in the past three years spent ₹ 75,00,000 to develop a Drug to treat Cancer, which was charged to Profit and Loss Account since they did not meet AS 26 criteria for capitalization. In the current year approval of the concerned Government Authority has been received. The Company wishes to capitalize ₹ 75,00,000 and disclose it as a prior period item. Is it correct? Give reason for your views.
(4 × 4 = 16 Marks)

MOCK TEST PAPER - 1

PCC : GROUP – I

PAPER – 1: ADVANCED ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) Accounting Standard 2 “Valuation of Inventories” states that inventories should be valued at lower of historical cost and net realisable value. AS 9 on “Revenue Recognition” states, “at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at net-realisable value.”

Bedsheets do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

- (b) Adjusted Net profit for the current year

$$= 2,00,00,000 + 5,50,000 - 1,65,000 = ₹ 2,03,85,000$$

Number of equity shares resulting from conversion of debentures

$$= 50,000 \times 8 = 4,00,000 \text{ equity shares}$$

Total number of equity shares resulting from conversion of debentures

$$= 40,00,000 + 4,00,000 = 44,00,000 \text{ shares}$$

$$\text{Diluted Earnings per share} = \frac{₹ 2,03,85,000}{44,00,000} = ₹ 4.63 \text{ (Approximately)}$$

- (c) As per para 12.1 of AS 10 “Accounting for Fixed Assets” expenditure that increases the future benefits from the existing assets, is included in the gross book value.

Hence, in the given case, repairs of ₹ 2.50 lacs and partial replacement of the part of the machinery should be charged to Profit & Loss Account. ₹ 7 lacs incurred on a part of the machinery, which will increase the efficiency, should be capitalized.

- (d) As per AS 11 ‘The Effects of Changes in Foreign Exchange Rates’, all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2010 and corresponding creditor would be recorded at ₹ 4,50,000 (i.e. \$10,000 × ₹ 45).

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditor of US \$10,000 on 31.3.2010 will be reported at ₹ 4,40,000 (i.e. \$10,000 × ₹ 44) and exchange profit of ₹ 10,000 (i.e. 4,50,000 – 4,40,000) should be credited to Profit and Loss account in the year 2009-10.

On 7.7.2010, creditor of \$10,000 is paid at the rate of ₹ 43. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, ₹ 10,000 (i.e. 4,40,000 – 4,30,000) will be credited to Profit and Loss account in the year 2010-11.

2. (a) **Loss to be borne by Equity and Preference Shareholders**

	₹
Profit and loss account (debit balance)	7,00,000
Goodwill	3,00,000
Plant & Machinery	3,00,000
Debtors	3,50,000
Amount to be written off	16,50,000
Less: 50% of Creditors	(3,50,000)
Recorded loss borne by the share holders	13,00,000
Add: Arrears of preference dividend of 2 years forgone by the preference shareholders	<u>1,40,000</u>
Total sacrifice by the shareholders of Weak Ltd.	<u>14,40,000</u>

(b)

	₹	₹
Total recorded loss of ₹13,00,000		
Preference shareholders' share of loss = 20% of ₹ 10,00,000	2,00,000	
Add: Arrears of preference dividend	<u>1,40,000</u>	3,40,000
Equity shareholders' share of loss (₹13,00,000 – ₹ 2,00,000) being more than 51% of equity share capital		<u>11,00,000</u>
		<u>14,40,000</u>

(c) New structure of share capital after reorganisation

Equity shares:	₹
20,000 equity shares of ₹45 each, fully paid up (₹ 20,00,000 – ₹11,00,000)	9,00,000
Preference shares:	
10,000, 9% preference shares of ₹80 each, fully paid up (₹ 10,00,000 – ₹ 2,00,000)	<u>8,00,000</u>
	<u>17,00,000</u>

(d) Working capital of the reorganized company

Current Assets:	₹	₹
Stock		3,00,000
Debtors		4,00,000
Cash		<u>1,50,000</u>
		8,50,000
Less: Current liabilities:		
Creditors	3,50,000	
Bank overdraft **	<u>75,000</u>	<u>4,25,000</u>
Working capital		<u>4,25,000</u>

(e) Balance Sheet of Sumit Ltd. (and reduced)
as on 31st March, 2011

Liabilities	₹	Assets	₹
Authorised, issued and paid up share capital		Fixed Assets	
20,000 equity shares of ₹45 each	9,00,000	Plant and Machinery	15,00,000
10,000, 9% preference shares of ₹80 each	8,00,000	Current Assets	
Unsecured loan		Stock	3,00,000
Term loan with Bank	2,25,000	Debtors	4,00,000
Current liabilities		Cash	1,50,000
Bank overdraft	75,000		
Creditors	<u>3,50,000</u>		
	<u>23,50,000</u>		<u>23,50,000</u>

** Current ratio shall be 2 : 1, i.e. total current liabilities shall be 50% of ₹8,50,000 (i.e. ₹3,00,000 + 4,00,000 + 1,50,000) = ₹4,25,000. Therefore, Bank overdraft = ₹75,000 (₹4,25,000 less creditors ₹3,50,000).

3. Realization Account as on 31.3.2011

Dr.				Cr.			
2011		₹	₹	2011		₹	₹
March 31	To Sundry assets:			March 31	By Provision for bad and doubtful debts		500
	Furniture and fixture	4,000			By Sundry creditors		15,500
	Trade mark	7,000			By Cash:		
	Debtors	16,000			Furniture and fixtures	1,000	
	Stock in trade	<u>10,000</u>	37,000		Trade mark	4,000	
					Debtors	11,000	
	To Cash (payment to creditors)		15,500		Stock in trade	8,000	
	To Cash (liability for bills discounted)		2,500		Surrender value of joint life policy	<u>3,000</u>	27,000
					By Partners' capital accounts: (loss on realisation)		
					A	3,600	
					B	3,600	
					C	2,400	
					D	<u>2,400</u>	<u>12,000</u>
			<u>55,000</u>				<u>55,000</u>

Cash Account

Dr.				Cr.		
2011		₹	2011		₹	
March 31	To Balance b/d	2,000	March 31	By Realisation A/c	15,500	
	To Realisation A/c	27,000		By Realisation A/c	2,500	
	To C's capital A/c	3,700		By A's loan A/c	10,000	
	To D's capital	8,400		By A's capital A/c	7,619	
				By B's capital A/c	<u>5,481</u>	
		<u>41,100</u>			<u>41,100</u>	

Partners' Capital Accounts

Dr.						Cr.					
		A	B	C	D			A	B	C	D
2011		₹	₹	₹	₹	2011		₹	₹	₹	₹
March 31	To Balance b/d	-	-	16,000	6,000	March 31	By Balance A/c	20,000	15,000		
	To Realisation A/c (loss)	3,600	3,600	2,400	2,400		By Cash A/c	-	-	3,700	8,400
	To C's Capital A/c (Loss of capital written off)	8,400	6,300	-	-		By A's Capital A/c	-	-	8,400	-
	To B's capital A/c (commission)	381	-	-	-		By B's Capital A/c	-	-	6,300	-
	To Cash A/c	7,619	5,481				By A's Capital A/c (commission)	-	381	-	-
		<u>20,000</u>	<u>15,381</u>	<u>18,400</u>	<u>8,400</u>			<u>20,000</u>	<u>15,381</u>	<u>18,400</u>	<u>8,400</u>

Working Notes:

- (1) There was a debit balance of ₹ 8,400 in D's capital account and D is a solvent partner, therefore he must bring cash for balance capital.
- (2) 'C' is insolvent therefore he is not able to bring cash. The deficiency in his account is borne by 'A' and 'B' in the ratio of 4:3 (capital ratio).
 Deficiency in 'C's account = ₹ 16,000 + ₹ 2,400 - ₹ 3,700 = ₹ 14,700
 Borne by A = $\frac{4}{7} \times ₹ 14,700 = ₹ 8,400$
 Borne by B = $\frac{3}{7} \times ₹ 14,700 = ₹ 6,300$
- (3) 'B' is entitled to get 5% commission on the amount finally paid to partner 'A' only. The calculation is as follows: $(₹ 20,000 - ₹ 3,600 - ₹ 8,400) \times \frac{5}{105} = ₹ 381$.
- (4) Mr. A's loan is paid off in cash.

4. **Income and Expenditure Account of Aman club**
for the year ended 31st March, 2011

<i>Expenditure</i>	<i>Amount (₹)</i>	<i>Income</i>	<i>Amount (₹)</i>
To Salaries (W.N.8)	1,28,000	By Subscriptions (W.N.2)	1,94,750
To Printing and stationery	70,000	By Entrance donation (W.N.3)	90,000
To Postage	40,000	By Interest (W.N.4)	60,000
To Telephone & fax	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations (W.N.6)	92,000
To Glass and table linen	12,000	By Excess of expenditure over income transferred to capital fund (deficit)	30,250
To Crockery and cutlery	14,000		
To Garden upkeep	8,000		
To Membership fee	4,000		
To Insurance (W.N.5)	6,000		
To Electricity charges (W.N.8)	43,000		
To Loss on sale of assets (10,000 – 8,000)	2,000		
To Depreciation (W.N.9)	<u>49,000</u>		
	<u>4,76,000</u>		<u>4,76,000</u>

Balance Sheet of Nanoo Club as on 31st March, 2011

<i>Liabilities</i>	<i>Amount (₹)</i>	<i>Assets</i>	<i>Amount (₹)</i>
Capital fund(W.N.10)	10,89,600	Fixed assets (W.N.9)	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors (W.N.7)	92,000	Investments in 12% Government securities	5,00,000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued (W.N.4)	2,000
Outstanding salary	8,000	Bank	2,24,600
Outstanding electricity charges	15,000	Cash	<u>8,000</u>
	<u>13,92,600</u>		<u>13,92,600</u>

Working Notes:

(1)

Opening Balance Sheet

as on 1st April, 2010

<i>Liabilities</i>	<i>Amount (₹)</i>	<i>Assets</i>	<i>Amount (₹)</i>
Capital fund (Bal.Fig.)	10,29,850	Fixed assets	5,00,000
Sundry creditors	1,12,000	Stock	3,80,000
Subscription received in advance	15,000	Investment in 12% Government securities	5,00,000
Entrance donation received in advance (pending membership)	1,00,000	Subscription outstanding	12,000
Gratuity fund	1,50,000	Prepaid insurance	1,000
		Cash	10,000
		Bank	<u>3,850</u>
	<u>14,06,850</u>		<u>14,06,850</u>

(2) Subscription	₹
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2011	7,000
Add: Received in advance as on 1.4.2010	<u>15,000</u>
	2,24,750
Less: Outstanding subscription as on 1.4.2010	(12,000)
Less: Received in advance as on 31.3.2011	<u>(18,000)</u>
	<u>1,94,750</u>
(3) Entrance Donation	₹
Entrance Donation received during the year	1,00,000
Add: Received in Advance as on 1.4.2010	<u>1,00,000</u>
	2,00,000
Less: Refundable to Ineligible Member	<u>20,000</u>
	1,80,000
Less: 50% Capitalized	<u>90,000</u>
	<u>90,000</u>

(4)	Interest received		₹
	Interest on ₹ 5,00,000 @ 12% p.a.		60,000
	Less: Interest received during the year		<u>58,000</u>
	Interest accrued as on 31.3.2011		<u>2,000</u>
	Interest credited to Income and Expenditure A/c		<u>60,000</u>
(5)	Insurance		₹
	Insurance paid during the year		5,000
	Add: Prepaid Insurance as on 1.4.2010		<u>1,000</u>
			<u>6,000</u>
(6)	Profit from Operations		₹
	<u>Cost of Goods sold</u>		
	Opening Stock as on 1.4.2010		3,80,000
	Add: Purchases		<u>15,00,000</u>
			18,80,000
	Less: Closing Stock		<u>2,10,000</u>
	Cost of Goods Sold (A)		<u>16,70,000</u>
	<u>Receipts from operations</u>		
	Receipts from Coffee Room		10,70,000
	Receipts from Wines & Sprits		5,10,000
	Receipts from Swimming Pool		80,000
	Receipts from Tennis Court		<u>1,02,000</u>
	Total of Receipts (B)		<u>17,62,000</u>
	Profit from Operations (B-A)		<u>92,000</u>
(7)	Sundry Creditors		₹
	Opening Balance as on 1.4.2010		1,12,000
	Add: Purchases made during the year		<u>15,00,000</u>
			16,12,000
	Less: Payment made during the year		<u>15,20,000</u>
	Closing Balance as on 31.3.2011		<u>92,000</u>
(8)	(a) Salary		₹
	Salary paid as on 31.3.2011	1,20,000	
	Add: Outstanding Salary as on 31.3.2011	<u>8,000</u>	<u>1,28,000</u>

(b)	Electricity charges	28,000	
Add:	Outstanding Electricity charges as on 31.3.2011	<u>15,000</u>	<u>43,000</u>
(9)	Fixed Assets		
	Fixed Assets as per Trial Balance		5,00,000
	Less: W.D.V. of Assets sold		<u>10,000</u>
			4,90,000
	Less: Depreciation @ 10% on ₹ 4,90,000		<u>49,000</u>
	Fixed Assets as on 31.3.2011		<u>4,41,000</u>
(10)	Capital fund		₹
	Capital fund as on 31.3.2010		10,29,850
	Add: Entrance donation capitalized		<u>90,000</u>
			11,19,850
	Less: Deficit		<u>30,250</u>
			<u>10,89,600</u>

5. (a)

Form B – RA (Prescribed by IRDA)

Name of the Insurer:

Agni Fire Insurance Co. Ltd.

Registration No. and Date of registration with the IRDA:

.....

Revenue Account for the year ended 31st March, 2011

	Particulars	Schedule	Current year ended on 31 st March, 2011 ₹
1.	Premiums earned (Net)	1	<u>8,40,000</u>
	Total (A)		<u>8,40,000</u>
1.	Claims incurred (Net)	3	8,00,000
2.	Commission		50,000
3.	Operating Expenses	4	<u>3,00,000</u>
	Total (B)		<u>11,50,000</u>
	Operating Profit/(Loss) from Fire Insurance Business [C =(A - B)]		(3,10,000)

Schedule 1

Premiums earned (Net)

	₹
Premium received	15,00,000
Less: Premium on re-insurance paid	<u>1,00,000</u>
	14,00,000
Change in provision for unexpired risk (NIL-5,60,000)	<u>(5,60,000)</u>
Net Premium	<u>8,40,000</u>

Schedule 2

Reserve for unexpired risk @ 40% on net premium ₹ 14,00,000 $\times \frac{40}{100} = ₹ 5,60,000$

Schedule 3

Claims

	₹
Claims paid	7,00,000
Add: Claims outstanding on 31.3.2011	<u>1,00,000</u>
	<u>8,00,000</u>

Schedule 4

Operating expenses

₹

Expenses of Management

3,00,000

(b)

Uncertain Bank Ltd.

Journal Entries

		(Rupees in crores)	
		Dr. ₹	Cr. ₹
Rebate on bills discounted A/c	Dr.	9.00	
To Discount on bills A/c			9.00
(Being the transfer of opening balance in rebate on bills discounted account to discount on bills account)			
Bills purchased and discounted A/c	Dr.	4000.00	
To Discount on bills A/c			144.00
₹ 4,000 crores $\times \frac{18}{100} = \frac{73}{365}$			

To Clients A/c (Being the discounting of bills of exchange during the year)			3,856.00
Discount on bills A/c	Dr.	10.80	
To Rebate on bills discounted A/c (Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)			10.80
Discount on bills A/c	Dr.	142.20	
To Profit and loss A/c (Being the amount of income for the year from discounting of bills of exchange transferred to Profit and Loss A/c)			142.20

Ledger Accounts

(i) Discount on bills A/c

2011		₹	2010		₹
March 31	To Rebate on bills discounted A/c	10.80	April 1	By Rebate on bills discounted A/c	9.00
	To Profit and loss A/c	142.20	2010-11	By Bills purchased and discounted A/c	<u>144.00</u>
		<u>153.00</u>			<u>153.00</u>

(ii) Rebate on bills discounted A/c

2010		₹	2010		₹
April 1	To Discount on bills A/c	9.00	April 1	By Balance b/d	9.00
2011			2011		
March 31	To Balance c/d	<u>10.80</u>	March 31	By Discount on bills A/c	<u>10.80</u>
		<u>19.80</u>			<u>19.80</u>

6. (a) Liquidator's Final Statement of Account

	₹		₹
To Cash in hand	7,50,000	By Liquidator's remuneration (2% on 2,65,000*)	5,300
To Cash / bank (Amount received on call for 7,000 equity shares @ ₹ 6.53 per share)	45,710	By Preferential creditors	35,000
		By Unsecured creditors	2,30,000
		By Preference shareholders	5,00,000

* 35,000 + 2,30,000 = 2,65,000

		By Equity shareholders (Amount paid to holders of 3,000 equity shares @ ₹ 8.47 per equity share)	<u>25,410</u>
	<u>7,95,710</u>		<u>7,95,710</u>

Working Note:

Calculation of amount receivable from equity shareholders or payable to equity shareholders

	₹	₹
Cash in hand (Assets realized)		7,50,000
Less: Payments made:		
Liquidator's remuneration	5,300	
Preference creditors	35,000	
Unsecured creditors	2,30,000	
Preference shareholders	<u>5,00,000</u>	<u>7,70,300</u>
		20,300
Add: Amount payable to equity shareholders (paid up):		
3,000 equity share of ₹ 100 each ₹ 75 paid up	2,25,000	
7,000 equity share of ₹ 100 each ₹ 60 paid up	<u>4,20,000</u>	<u>6,45,000</u>
Total loss to be borne by equity shareholders		<u>6,65,300</u>
No. of equity shares		10,000 shares
Loss per equity share $\frac{6,65,300}{10,000} = ₹ 66.53$		
Amount receivable from 7,000 equity shareholders = 7,000 x 6.53 (i.e. 66.53 – 60) = ₹ 45,710		
Amount payable to 3,000 equity shareholders = 3,000 x 8.47 (i.e. 75 – 66.53) = ₹ 25,410		

(b)

In the books of Mr. Mohan
8% Bond Account

Date	Particulars	Nominal Value ₹	Income ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Income ₹	Cost ₹
2010 April 1	To Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	2010 May 1	By Bank A/c (W.N.2)	--	48,000	---
2011 Mar. 31	To Profit & Loss A/c : Int. income		84,000		Oct. 1	By Bank A/c (W.N.4)	3,00,000	10,000	2,43,000
	Profit on Sale			11,500	Nov. 1	By Bank A/c (W.N.5)	---	36,000	---
		<u>12,00,000</u>	<u>1,24,000</u>	<u>9,37,500</u>	Mar. 31	By Balance c/d (W.N.7 & 8)	<u>9,00,000</u>	<u>30,000</u>	<u>6,94,500</u>
							<u>12,00,000</u>	<u>1,24,000</u>	<u>9,37,500</u>

Equity Shares in X Ltd.

	Particulars	Nominal Value ₹	Income ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Income ₹	Cost ₹
2010 April 12	To Bank A/c	10,00,000	-	40,00,000	2010 May 15	By Bank A/c	12,50,000	---	25,00,000
May 15	To Bonus Issue A/c (W.N.3)	15,00,000	---	---	Dec. 1	By Bank (Dividend) (W.N.6)	---	2,25,000	---
2011 Mar. 31	To Profit & Loss A/c: Dividend	---	2,25,000	---	2011 Mar. 31	By Balance c/d (W.N.9)	12,50,000	---	20,00,000
	Profit on Sale (W.N.10)	---	---	5,00,000					
		<u>25,00,000</u>	<u>2,25,000</u>	<u>45,00,000</u>			<u>25,00,000</u>	<u>2,25,000</u>	<u>45,00,000</u>

Working Notes:

1. Cum interest purchased cost of 8% Bond = $\frac{\text{₹}12,00,000}{100} \times 80.50 = \text{₹}9,66,000$
 Less: Interest portion $\frac{\text{₹}12,00,000}{100} \times 8\% \times \frac{5}{12} = \text{₹}40,000$
 Ex-interest cost ₹ 9,26,000
2. Half yearly interest on 8% bond as on 1st May, 2010
 = ₹12,00,000 x 8% x 6/12 = ₹ 48,000
3. Bonus issue of equity shares of X Ltd. = 1,00,000/2 x 3 x 10 = ₹ 15,00,000
4. Sales value = 3,00,000/100 x 81 = ₹ 2,43,000
5. Half yearly interest on 8% bond as on 1st November, 2010
 = (12,00,000 - 3,00,000) x 8% x 6/12 = ₹ 36,000
6. Dividend on equity shares of X Ltd.
 = (10,00,000 + 15,00,000 - 12,50,000) x 18% = ₹ 2,25,000
7. Accrued interest = 9,00,000 x 8% x 5/12 = 30,000
8. Closing balance of 8% bond 9,26,000/12,00,000 x 9,00,000 = 6,94,500
9. Closing balance of equity shares of X Ltd.
 [40,00,000/(10,00,000+15,00,000)] x 12,50,000 = ₹20,00,000
10. Profit on sale of equity shares of X Ltd.
 Sales value ₹ 25,00,000
 Less: Cost [40,00,000/(10,00,000+15,00,000)] x 12,50,000 ₹ 20,00,000
₹ 5,00,000
7. (a) (i) Amount of foreseeable loss (₹ in lakhs)

Total cost of construction (500 + 105 + 495)	1,100
Less: Total contract price	<u>1,000</u>
Total foreseeable loss to be recognized as expense	<u>100</u>

According to para 35 of AS 7 (Revised 2002), when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

		(₹ in lakhs)
(ii)	Contract work-in-progress i.e. cost incurred to date are ₹605 lakhs	
	Work certified	500
	Work not certified	<u>105</u>
		<u>605</u>
	This is 55% $(605/1,100 \times 100)$ of total costs of construction.	

- (iii) Proportion of total contract value recognised as revenue as per para 21 of AS 7 (Revised).

$$55\% \text{ of ₹1,000 lakhs} = ₹550 \text{ lakhs}$$

- (iv) Amount due from/to customers = Contract costs + Recognised profits – Recognised losses – (Progress payments received + Progress payments to be received)

$$= [605 + \text{Nil} - 100 - (400 + 140)] \text{ ₹ in lakhs}$$

$$= [605 - 100 - 540] \text{ ₹ in lakhs}$$

$$\text{Amount due to customers} = ₹35 \text{ lakhs}$$

The amount of ₹35 lakhs will be shown in the balance sheet as liability.

- (b) The proposals will be evaluated and vendor will be selected considering the following criteria:
1. Quantum of services provided and whether the same matches with the requirements of the hospital.
 2. Reputation and background of the vendor.
 3. Comparative costs of the various propositions.
 4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
 5. Assurance of quality, confidentiality and secrecy.
 6. Data storage and processing facilities.
- (c) As per AS 19 'Leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment^{*} amounts to at least substantially all of the fair value of leased asset. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not

^{*} In calculating the present value of the of minimum lease payments, the discount rate is the interest rate implicit in the lease.

transferred. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

Annuity Factor ₹ 3.36 lakhs (approx.)
(Year 1 to Year 5 Flows ₹ 3 lakhs each year)

Present Value of minimum lease payments ₹ 10.08 lakhs (approx.)

Thus present value of minimum lease payments is ₹ 10.08 lakhs and the fair value of the machine is ₹ 30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for five years. Therefore lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

(d) In the books of N Co. Ltd.

Journal Entries

			₹	₹
1.10.2010	Employee compensation expense A/c Dr.	14,00,000		
	To Employee stock option outstanding A/c			14,00,000
	(Being the grant of 20,000 stock options to employees at ₹ 50 when market price is ₹ 120)			
10.12.10	Bank A/c Dr.	8,00,000		
to	Employee stock option outstanding A/c Dr.	11,20,000		
31.3.11	To Equity share capital A/c			1,60,000
	To Securities premium A/c			17,60,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.11	Employee stock option outstanding A/c Dr.	2,80,000		
	To Employee compensation expense A/c			2,80,000
	(Being reverse entry passed for lapse of 4,000 stock options)			

31.3.11	Profit and Loss A/c	Dr.	11,20,000	
	To Employee compensation expense A/c			11,20,000
	(Being transfer of employee compensation transferred to Profit and Loss Account)			

- (e) As per AS 26 'Intangible Assets', the condition for recognition of a research and development asset has to be fulfilled when the expenditure was incurred. If the recognition conditions are not fulfilled the amount has to be charged to the profit and loss account. Once the amount is charged to the Profit and Loss account, such amount cannot be restated later as a Research and Development Asset when the condition for recognition get fulfilled. The Company therefore cannot capitalize ₹ 75,00,000 even as a prior period item.

MOCK TEST PAPER – 2

PCC: GROUP – I

PAPER – 1: ADVANCED ACCOUNTING

Question No. 1 is compulsory.

Answer any five questions from the remaining six questions.

Working notes should form part of the answer.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Smart Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is payment of consideration in 14 days and in the event of delay interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2012, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at ₹ 9 lakhs. Decide whether the income by way of interest from dealers is eligible for recognition as per AS 9.
- (b) Change Ltd. wants to re-classify its investments in accordance with AS 13. Decide on the amount of transfer, based on the following information:
 1. A portion of Current Investments purchased for ₹ 20 lakhs, to be re-classified as Long Term Investments, as the Company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.
 2. Another portion of current investments purchased for ₹ 15 lakhs, to be re-classified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs.
 3. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these were ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognise permanent decline, as per AS 13.
- (c) At the end of the financial year ending on 31st December, 2011, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

	Probability	Loss (₹)
In respect of five cases (Win)	100%	-
Next ten cases (Win)	60%	-
Lose (Low damages)	30%	1,20,000

Lose (High damages)	10%	2,00,000
Remaining five cases		
Win	50%	-
Lose (Low damages)	30%	1,00,000
Lose (High damages)	20%	2,10,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof.

- (d) Rishi Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of ₹ 50 crore in capital assets, received ₹ 10 crore from the Government in January, 2012 (accounting period being 2011-2012). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2012.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not. *(5 Marks each)*

2. P, Q, R are three doctors who are running a Polyclinic. Their capital on 31st March, 2011 was ₹ 1,00,000 each. They agreed to admit X, Y and Z as partners w.e.f. 1st April 2011. The terms for sharing profits & losses were as follows:
- 70% of the visiting fee is to go to the specialist concerned.
 - 50% of the chamber fee will be payable to the individual specialist.
 - 40% of operation fee and fee for pathological reports, X-rays and ECG will accrue in favour of the doctor concerned.
 - Balance of profit or loss is shared equally.
 - All the partners are entitled for 6% interest on capital employed.

They further agreed that:

- X, Y and Z brought in ₹ 20,000 each as goodwill. Goodwill is shared by the existing partners equally.
- X, Y and Z brought in ₹ 50,000 each as capital. Each of the original partners also contributed ₹ 50,000 by way of capital.

The receipts for the year after admission of new partners were:

<i>Name of doctors</i>	<i>Particulars</i>	<i>Visiting Fee (₹)</i>	<i>Chamber Fee (₹)</i>	<i>Fee for reports, operation etc. (₹)</i>
P	General Physician	1,50,000	2,00,000	-
Q	Gynecologist	25,000	1,75,000	1,00,000
R	Cardiologist	-	1,00,000	75,000
X	Child Specialist	1,00,000	1,50,000	-
Y	Pathologist	-	-	1,00,000
Z	Radiologist	-	40,000	2,00,000
	Total	<u>2,75,000</u>	<u>6,65,000</u>	<u>4,75,000</u>

Expenses for the year were as follows:

<i>Particulars</i>	<i>₹</i>
Medicines, injections and other consumables	1,00,000
Printing and stationery	5,000
Telephone expenses	5,000
Rent	42,000
Power and light	10,000
Nurses salary	20,000
Attendants wages	<u>20,000</u>
Total	<u>2,02,000</u>
Depreciation:	
X-Ray machines	15,000
ECG equipments	5,000
Furniture	5,000
Surgical equipments	<u>5,000</u>
Total Depreciation	<u>30,000</u>

You are requested to:

- Pass necessary journal entries on admission of partners.
- Prepare the Profit and Loss Account of the polyclinic for the year ended 31st March, 2012.

- (iii) Prepare capital accounts of all the partners at the end of the financial year 2011-12. Also show the distribution of profit among partners. (16 Marks)

3. Success Ltd. issued ₹ 10,00,000, 6% Debenture Stock at par on 21.1.2002. Interest was payable on 30th June and 31st December, in each year.

Under the terms of the Debentures Trust the owned stock is redeemable at par. The trust deed obliges the Company to pay to the trustees on 31st December, 2009 and annually thereafter the sum of ₹ 1,00,000 to be utilized for the redemption and cancellation of an equivalent amount of stock, which is to be selected by drawing lots.

Alternatively, the Company is empowered as from 1st January, 2009 to purchase its own debentures from the open market. These Debentures must be surrendered to the Trustees for cancellation and any adjustments for accrued interest recorded in the books of account. If in any year the nominal amount of the stock surrendered under this alternative does not amount to ₹ 1,00,000 then the shortfall is to be paid by the Company to the Trustees in cash on 31st December.

The following purchases of stock were made by the Company:

	Nominal value of stock purchased ₹	Purchase price per ₹ 100 of stock ₹
(1) 30th September, 2009	1,20,000	98
(2) 31st May, 2010	75,000	95 (Ex-interest)
(3) 31st July, 2011	1,15,000	92

The Company fulfilled all its obligations under the trust deed.

Prepare the Ledger Accounts : (a) Debenture Stock A/c (b) Debenture Redemption A/c

(c) Debenture Interest A/c.

Note: Ignore costs and taxation (16 Marks)

4. The following information relates to the business of Mr. Incomplete, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2012 and a Balance Sheet as on that date:

(a)	Balance as on 31st March, 2011 (₹)	Balance as on 31st March, 2012 (₹)
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000

Stocks	–	40,000
Bills payable	28,000	16,000
Cash and Bank balances	1,80,000	1,04,000
Sundry Debtors	1,60,000	–
Bills receivable	32,000	28,000
Sundry Creditors	1,20,000	–

- (b) Cash transactions during the year included the following besides certain other items:

	₹		₹
Sale of old papers and miscellaneous income	20,000	Cash purchases	48,000
Miscellaneous Trade expenses (including salaries etc.)	80,000	Payment to creditors	1,84,000
Collection from debtors	2,00,000	Cash sales	80,000

- (c) Other information:

- (i) Bills receivable drawn during the year amount to ₹ 20,000 and Bills payable accepted ₹ 16,000.
- (ii) Some items of old furniture, whose written down value on 31st March, 2011 was ₹ 20,000 was sold on 30th September, 2011 for ₹ 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.
- (iii) Of the Debtors, a sum of ₹ 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.
- (iv) Mr. Incomplete has been maintaining a steady gross profit rate of 30% on turnover.
- (v) Outstanding salary on 31st March, 2011 was ₹ 8,000 and on 31st March, 2012 was ₹ 10,000 on 31st March, 2011. Profit and Loss Account had a credit balance of ₹ 40,000.
- (vi) 20% of total sales and total purchases are to be treated as for cash.
- (vii) Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts. (16 Marks)

5. (a) From the following information prepare Sales Ledger Adjustment Account and Bought Ledger Adjustment Account in the General Ledger:

On 1.4.2011 balance in bought ledger (Dr.) ₹ 10,000, (Cr.) ₹ 96,000, balance in sales ledger (Dr.) ₹ 1,41,880 (Cr.) ₹ 2,240:

31.3.2012	₹	31.3.2012	₹
Purchases	5,40,000	Discount received	7,200
Purchases return	20,000	Bills receivable received	40,000
Total sales	7,68,000	Bills payable issued	22,400
Cash sales	40,000	Reserve for doubtful debts	9,160
Sales return	10,000	Cash paid to customers	1,840
Cash received from customers	6,24,000	Bills receivable dishonoured	6,000
Discount allowed	11,200	Bought ledger balance	10,400
Cash paid to suppliers	4,80,000	Sales ledger balance	1,83,200
Transfer from sales to bought ledger	20,800		

(8 Marks)

- (b) Here and There and Co. of Mumbai started a branch at Bangalore on 1.4.2011 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for the year ending on 31.3.2012:

	₹
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2012 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2012	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2012	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment Account for ascertaining gross profit and Branch Profit and Loss Account for ascertaining Branch profit. (8 Marks)

6. (a) Bright Electricity Company earned a profit of ₹ 1,20,00,000 (after tax) for the year ended 31st March, 2011 on which date it had a capital base of ₹ 8,74,00,000 and the bank rate was 8%. The following additional information about the company is also provided to you:

	₹
Reserve Fund Investment, invested in 8% Government securities at par	1,20,00,000
Contingencies Reserve Fund Investments @ 7% per annum	50,00,000
Loan from State Electricity Board	1,00,00,000
11% Debentures	8,00,000
Development Reserve	32,00,000

Show how the surplus of the company will be disposed of under the provisions of the Electricity Act. (8 Marks)

- (b) A joint stock company resolved to issue 10 lakh equity shares of ₹ 10 each at a premium of ₹ 1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications. The issue was underwritten by X, Y and Z for a commission @ 2% of the issue price. 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively.

The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows: X - 1,19,500 shares; Y - 57,500 shares and Z - 10,500 shares.

Unmarked applications totalled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to:

- Prepare a statement calculating underwriter's liability for shares.
- Pass journal entries for all transactions including cash transactions. (8 Marks)

7. (a) Paras Ltd. had the following borrowings during a year in respect of capital expansion.

Plant	Cost of Asset	Remarks
	₹	
Plant P	100 lakhs	No specific borrowings
Plant Q	125 lakhs	Bank loan of ₹ 65 lakhs at 10%
Plant R	175 lakhs	9% Debentures of ₹ 125 lakhs were issued.

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (1) ₹ 100 lakhs at 10% from Corporation Bank and (2) ₹ 110 lakhs at 11.50% from State Bank of India, to meet its capital expansion requirements. Determine the amount of borrowing costs to be capitalized in each of the above Plants, as per AS-16.

- (b) From the following information of Honour Bank Limited, compute the provisions to be made in the Profit and Loss account:

	₹ in lakhs
Assets	
Standard	20,000
Substandard	16,000
Doubtful	
For one year (secured)	6,000
For two years and three years (secured)	4,000
For more than three years (secured by mortgage of plant and machinery ₹ 600 lakhs)	2,000
Non-recoverable Assets	1,500

- (c) 'X' lent ₹ 25,000 to 'Y' on 1st January, 2011. The amount is repayable in 5 half-yearly installments commencing from 1st January, 2012. Calculate the average due date and interest @ 10% per annum.
- (d) What are the reasons for increasing popularity of an ERP package in big organizations?
- (e) Bharat Ltd. grants 1,000 employees stock options on 1.4.2008 at ₹ 40, when the market price is ₹ 160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2010. 600 options are exercised on 30.6.2011. 100 vested options lapse at the end of the exercise period.

Pass Journal Entries giving suitable narrations.

(5 Marks each)

MOCK TEST PAPER - 2

PCC : GROUP – I

PAPER – 1: ADVANCED ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) As per AS 9 "Revenue Recognition", where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty inverted. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made.

In this case, the company never realized interest for the delayed payments made by the dealers. Hence, it has to recognize the interest only if the ultimate collection is certain. The interest income hence is not to be recognized.

- (b) The transfers should be made at lower of (a) Cost, and (b) Fair value at the date of transfer.

1. In this case, the transfer should be made at cost (being lower of ₹ 20 lakhs and ₹ 25 lakhs) and hence the long term investments should be carried at ₹ 20 lakhs.
2. In the second case, the transfer should be made at Market Value (being lower of ₹ 15 lakhs and ₹ 6.5 lakhs) and hence the long term investments should be carried at ₹ 6.50 lakhs. The loss of ₹ 15 – ₹ 6.5 = ₹ 8.5 lakhs should be provided for in the profit and loss account.
3. Here, the transfer should be made at carrying amount (being lower of ₹ 18 lakhs and ₹ 12 lakhs) and hence these reclassified current investments should be carried at ₹ 12 lakhs.

- (c) According to AS 29 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied:

- (i) There is a present obligation arising out of past events but not recognized as provision.
- (ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- (iii) The possibility of an outflow of resources embodying economic benefits is also remote.
- (iv) The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision.

In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 60% and for remaining five cases is 50%. As per AS 29, we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is not remote rather there is reasonable possibility of loss, therefore disclosure by way of note should be made. For the purpose of the disclosure of contingent liability by way of note, amount may be calculated as under:

$$\begin{aligned}\text{Expected loss in next ten cases} &= 30\% \text{ of ₹ 1,20,000} + 10\% \text{ of ₹ 2,00,000} \\ &= ₹ 36,000 + ₹ 20,000 \\ &= ₹ 56,000\end{aligned}$$

$$\begin{aligned}\text{Expected loss in remaining five cases} &= 30\% \text{ of ₹ 1,00,000} + 20\% \text{ of ₹ 2,10,000} \\ &= ₹ 30,000 + ₹ 42,000 \\ &= ₹ 72,000\end{aligned}$$

To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of ₹ 9,20,000 (₹ 56,000 × 10 + ₹ 72,000 × 5) as contingent liability.

- (d) As per para 10 of AS 12 'Accounting for Government Grants', where the government grants are of the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue. Thus it is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to capital reserve. Therefore, the accounting treatment followed by the company is not proper.

2. (i) Journal Entries (on admission of partners)

Date	Particulars	Debit (₹)	Credit (₹)
1 st April, 2011	X's capital A/c Dr.	20,000	
	Y's capital A/c Dr.	20,000	
	Z's capital A/c Dr.	20,000	

	To P's capital A/c		20,000
	To Q's capital A/c		20,000
	To R's capital A/c		20,000
	(Being goodwill adjusted through capital accounts)		
	Bank A/c Dr.	2,10,000	
	To X's capital A/c (20,000 + 50,000)		70,000
	To Y's capital A/c (20,000 + 50,000)		70,000
	To Z's capital A/c (20,000 + 50,000)		70,000
	(Being goodwill and capital brought in by new partners)		
	Bank A/c Dr.	1,50,000	
	To P's capital A/c		50,000
	To Q's capital A/c		50,000
	To R's capital A/c		50,000
	(Being capital brought in by existing partners)		

(ii)

Profit & Loss Account
for the year ended 31st March, 2012

Particulars	(₹)	Particulars	(₹)
To Medicines, injections and other consumables	1,00,000	By Visiting fee	2,75,000
To Printing and stationery	5,000	By Chamber fee	6,65,000
To Telephone expenses	5,000	By Fee for report, operation etc.	4,75,000
To Rent	42,000		
To Power and light	10,000		
To Nurses salary	20,000		
To Attendants wages	20,000		
To Depreciation			
X-ray machine 15,000			
ECG equipment 5,000			
Furniture 5,000			
Surgical equipment <u>5,000</u>	30,000		

To Interest on capital (W.N.3)	39,600		
To Net profit transferred to partners' capital accounts	<u>11,43,400</u>		<u> </u>
	<u>14,15,000</u>		<u>14,15,000</u>

(iii) **Partners' Capital Accounts**
for the year ended 31st March, 2012

Debit side

Particulars	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
To P, Q & R A/cs (Goodwill)	-	-	-	20,000	20,000	20,000
To Balance c/d	<u>4,56,600</u>	<u>3,96,600</u>	<u>3,31,600</u>	<u>2,69,400</u>	<u>1,64,400</u>	<u>2,24,400</u>
	<u>4,56,600</u>	<u>3,96,600</u>	<u>3,31,600</u>	<u>2,69,400</u>	<u>1,64,400</u>	<u>2,24,400</u>

Credit side

Particulars	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
By Balance b/d	1,00,000	1,00,000	1,00,000	-	-	-
By X, Y & Z A/cs (Goodwill)	20,000	20,000	20,000	-	-	-
By Bank	50,000	50,000	50,000	70,000	70,000	70,000
By Interest on capital (W.N.3)	10,200	10,200	10,200	3,000	3,000	3,000
By Fee (share) (W.N.1)	2,05,000	1,45,000	80,000	1,45,000	40,000	1,00,000
By Profit (share) (W.N.2)	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>
	<u>4,56,600</u>	<u>3,96,600</u>	<u>3,31,600</u>	<u>2,89,400</u>	<u>1,84,400</u>	<u>2,44,400</u>

Working Notes:

1. Statement showing distribution of fee among partners

Partner's Name	Visiting fee (70%) (₹)	Chamber fee (50%) (₹)	Operation fee (40%) (₹)	Total (₹)
P	1,05,000	1,00,000	-	2,05,000
Q	17,500	87,500	40,000	1,45,000

R	-	50,000	30,000	80,000
X	70,000	75,000	-	1,45,000
Y	-	-	40,000	40,000
Z	-	20,000	80,000	1,00,000
	<u>1,92,500</u>	<u>3,32,500</u>	<u>1,90,000</u>	<u>7,15,000</u>

2. Statement showing distribution of profit among partners

	₹
Profits as per profit and loss account	11,43,400
Less: Fee payable to partners	<u>(7,15,000)</u>
Profit to be divided equally among partners	<u>4,28,400</u>

Share of each partner in remaining profit = ₹ 4,28,400/6 = ₹ 71,400.

3. Interest on capital employed

	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
Opening balance	1,00,000	1,00,000	1,00,000	-	-	-
Add: Premium for goodwill shared equally by old partners	20,000	20,000	20,000	-	-	-
Add: Capital brought in cash	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
	<u>1,70,000</u>	<u>1,70,000</u>	<u>1,70,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Interest @ 6%	10,200	10,200	10,200	3,000	3,000	3,000

Total interest = ₹ 39,600.

Note: It is assumed that amount of premium for goodwill brought in by new partners X, Y and Z has not been withdrawn by old partners P, Q and R and it is still kept in the business.

3. In the Books of Success Ltd.
Debenture Stock Account

2009		₹	2009		₹
Sept. 30	To Debenture Redemption A/c	1,20,000	Jan. 1	By Balance b/d	10,00,000
Dec. 31	To Balance c/d	<u>8,80,000</u>			
		<u>10,00,000</u>			<u>10,00,000</u>

2010			₹	2010		₹
May 31	To	Debenture Redemption	75,000	Jan. 1	By Balance b/d	8,80,000
	A/c					
Dec.31	To	Debenture Redemption	25,000			
	A/c					
	To	Balance c/d	<u>7,80,000</u>			
			<u>8,80,000</u>			<u>8,80,000</u>
2011			₹	2011		₹
July 31	To	Debenture Redemption	1,15,000	Jan. 1	By Balance b/d	7,80,000
	A/c					
Dec.31	To	Balance c/d	<u>6,65,000</u>			
			<u>7,80,000</u>			<u>7,80,000</u>

Debenture Redemption Account

2009			₹	2009		₹
Sept. 30	To	Bank A/c (₹ 1,20,000×0.98 – ₹ 1,800)	1,15,800	Sept.30	By Debenture Stock A/c	1,20,000
	To	Capital Reserve A/c	<u>4,200</u>			
			<u>1,20,000</u>			<u>1,20,000</u>
2010			₹	2010		₹
May 30	To	Bank A/c (₹ 75,000 × 0.95)	71,250	May 31	By Debenture Stock A/c	75,000
	To	Capital Reserve A/c (Profit on cancellation)	3,750	Dec. 31	By Debenture Stock A/c	25,000
Dec.31	To	Bank A/c (Shortfall= ₹1,00,000 – ₹ 75,000)	25,000			
			<u>1,00,000</u>			<u>1,00,000</u>

2011		₹	2011		₹
July 31	To Bank A/c (₹ 1,15,000 × .92 – ₹ 575)	1,05,225	July 31	By Debenture Stock A/c	1,15,000
	To Capital Reserve A/c (Profit on cancellation)	9,775			
		1,15,000			1,15,000

Debenture Interest Account

2009		₹	2009		₹
June 30	To Bank A/c	30,000	Dec. 31	By Profit and Loss A/c	58,200
Sept. 30	To Bank A/c	1,800			
Dec. 31	To Bank A/c	26,400			
		58,200			58,200
2010		₹	2010		₹
May 31	To Bank A/c	1,875	Dec. 31	By Profit and Loss A/c	50,175
June 31	To Bank A/c	24,150			
Dec. 31	To Bank A/c	24,150			
		50,175			50,175
2011		₹	2011		₹
June 30	To Bank A/c	23,400	Dec. 31	By Profit and Loss A/c	43,925
July 31	To Bank A/c	575			
Dec. 31	To Bank A/c	19,950			
		43,925			43,925

Working Notes :

Interest paid on Debentures @ 6% per annum:

<i>Date</i>	<i>Amount of Debentures</i> ₹	<i>Period</i>	<i>Interest</i> ₹
<i>2009</i>			
June 30	10,00,000	6 months	30,000
Sept. 30	1,20,000	3 months	1,800
Dec. 31	8,80,000	6 months	26,400
<i>2010</i>			
May 31	75,000	5 months	1,875
June 30	8,05,000	6 months	24,150
Dec. 31	8,05,000	6 months	24,150
<i>2011</i>			
June 30	7,80,000	6 months	23,400
July 31	1,15,000	1 month	575
Dec. 31	6,65,000	6 months	19,950

Notes :

- (1) It has been assumed that debentures are purchased for immediate cancellation.
- (2) The purchases of 30th September, 2009 and 31st July, 2011 have been taken on cum-interest basis

**4. Trading and Profit and Loss Account of Mr. Incomplete
for the year ended 31st March, 2012**

	₹		₹
To Opening stock (balancing figure)	80,000	By Sales	4,00,000
To Purchases	2,40,000	By Closing stock	40,000
To Gross profit c/d @ 30% on sales	<u>1,20,000</u>		
	<u>4,40,000</u>		<u>4,40,000</u>

To	Miscellaneous expenses (₹ 80,000 – ₹ 8,000 + ₹ 10,000)	82,000	By	Gross profit b/d	1,20,000
To	Depreciation:		By	Miscellaneous receipts	20,000
	Building ₹ 36,000		By	Net loss transferred to Capital A/c	25,840
	Furniture ₹ 7,800 (₹ 6,800 + ₹ 1,000)				
	Motor Car ₹ <u>16,000</u>	59,800			
To	Loss on sale of furniture	11,000			
To	Bad debts	8,000			
To	Provision for doubtful debts	<u>5,040</u>			
		<u>1,65,840</u>			<u>1,65,840</u>

Balance Sheet of Mr. Incomplete
as on 31st March, 2012

Liabilities	₹	₹	Assets	₹	₹
Capital as on 1 st April, 2011		7,16,000	Building	3,20,000	
Profit and Loss A/c			Add: Addition		
Opening balance	40,000		during the year	<u>40,000</u>	
Less: Loss for the year	<u>(25,840)</u>	14,160		3,60,000	
			Less: Provision for depreciation	<u>(36,000)</u>	3,24,000
Sundry creditors		1,12,000	Furniture	60,000	
Bills payable		16,000			
Outstanding salary		10,000	Less: Sold during the year	<u>(20,000)</u>	
				40,000	
			Add: Addition		
			during the year	<u>28,000</u>	
				68,000	
			Less: Depreciation	<u>(6,800)</u>	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	<u>(16,000)</u>	64,000

			Stock in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	<u>(5,040)</u>	2,46,960
			Bills receivable		28,000
			Cash in hand and at bank		<u>1,04,000</u>
		<u>8,68,160</u>			<u>8,68,160</u>

Working Notes:

Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash/Bank A/c	2,00,000
To Sales A/c	3,20,000	By Bills Receivable A/c	20,000
		By Bad debts A/c	8,000
		By Balance c/d (bal. fig.)	<u>2,52,000</u>
	<u>4,80,000</u>		<u>4,80,000</u>

Sundry Creditors Account

	₹		₹
To Cash/Bank A/c	1,84,000	By Balance b/d	1,20,000
To Bills Payable A/c	16,000	By Purchases A/c	1,92,000
To Balance c/d (bal. fig)	<u>1,12,000</u>		
	<u>3,12,000</u>		<u>3,12,000</u>

Bills Receivable Account

	₹		₹
To Balance b/d	32,000	By Cash/ Bank A/c (bal. fig)	24,000
To Sundry Debtors A/c	<u>20,000</u>	By Balance c/d	28,000
	<u>52,000</u>		<u>52,000</u>

Bills Payable Account

	₹		₹
To Cash/Bank A/c (bal. fig)	28,000	By Balance b/d	28,000
To Balance c/d	<u>16,000</u>	By Sundry Creditors A/c	16,000
	<u>44,000</u>		<u>44,000</u>

Furniture Account

	₹		₹
To Balance b/d	60,000	By Bank/Cash A/c	8,000
To Bank A/c	28,000	By Depreciation A/c	1,000
		By Profit and loss A/c (loss on sale)	11,000
		By Depreciation A/c	6,800
		By Balance c/d	<u>61,200</u>
	<u>88,000</u>		<u>88,000</u>

Cash/Bank Account

	₹		₹
To Balance b/d	1,80,000	By Misc. trade expenses A/c	80,000
To Miscellaneous receipts A/c	20,000	By Purchases A/c	48,000
To Sundry Debtors A/c	2,00,000	By Furniture A/c (bal. fig)	28,000
To Sales A/c	80,000	By Sundry Creditors A/c	1,84,000
To Furniture A/c (sale)	8,000	By Bills Payable A/c	28,000
To Bills Receivable A/c	24,000	By Building A/c	40,000
		By Balance c/d	<u>1,04,000</u>
	<u>5,12,000</u>		<u>5,12,000</u>

Opening Balance Sheet of Mr. Incomplete as on 31st March, 2011

Liabilities	₹	Assets	₹
Capital (bal. fig)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry Creditors	1,20,000	Motor car	80,000
Bills Payable	28,000	Stock in trade	80,000
Outstanding salary	8,000	Sundry Debtors	1,60,000
		Bills Receivable	32,000
		Cash in hand and at bank	<u>1,80,000</u>
	<u>9,12,000</u>		<u>9,12,000</u>

5 (a)

In the General Ledger
Sales Ledger Adjustment Account

		₹			₹
1.4.2011	To Balance b/d	1,41,880	1.4.2011	By Balance b/d	2,240
31.3.2012	To General Ledger		31.3.2012	By General Ledger	
	Adjustment A/c:			Adjustment A/c:	
	Sales (Cr.)	7,28,000		Sales return	10,000
	Cash paid to customers	1,840		Cash from customers	6,24,000
	Bills receivable dishonoured	6,000		Discount allowed	11,200
	To Balance c/d	13,720		Transfer to bought ledger	20,800
				Bill receivable received	40,000
				By Balance c/d	1,83,200
		<u>8,91,440</u>			<u>8,91,440</u>

Bought Ledger Adjustment Account

		₹			₹
1.4.2011	To Balance b/d	10,000	1.4.2011	By Balance b/d	96,000
31.3.2012	To General Ledger		31.3.2012	By General Ledger	
	Adjustment A/c:			Adjustment A/c:	
	Purchases returns	20,000		Purchases	5,40,000
	Cash paid	4,80,000		By Balance c/d	10,400
	Transfer from sales ledger	20,800			
	Discount received	7,200			
	Bills payable accepted	22,400			
	To Balance c/d	<u>86,000</u>			
		<u>6,46,400</u>			<u>6,46,400</u>

(b) Branch Debtors A/c

	₹		₹
To Branch Stock A/c	1,16,000	To Branch Cash A/c	74,000
		To Bad Debts written off	400
	<u>1,16,000</u>	To Balance c/d	<u>41,600</u>
			<u>1,16,000</u>
Goods Sent to Branch A/c			
To Branch Adjustment A/c	20,000	By Branch Stock A/c	1,20,000
1,00,000x $\frac{20}{100}$			
To Purchases/ Trading A/c	<u>1,00,000</u>		
	<u>1,20,000</u>		<u>1,20,000</u>
Branch Cash A/c			
To Branch Debtors A/c	74,000	By Branch Expenses A/c	24,000
To Branch remittance from H.O.	6,000	By Cash to H.O.	86,000
To Branch Stock A/c - Cash Sales (balancing figure)	<u>34,000</u>	By Balance c/d	4,000
	<u>1,14,000</u>		<u>1,14,000</u>
Branch Stock A/c			
To Goods sent to Branch A/c	1,20,000	By Branch Debtors A/c (balancing figure)	1,16,000
To Branch Adjustment A/c (Excess profit over normal loading)	54,000*	By Cash Sales	34,000
		By Goods in Transit (1,20,000-1,08,000)	12,000
	<u>1,74,000</u>	By Balance c/d	<u>12,000</u>
			<u>1,74,000</u>
Branch Expenses A/c			
To Branch Cash A/c	<u>24,000</u>	By Branch P&L A/c	<u>24,000</u>

* ₹ [1,16,000 + 34,000 – (1,20,000-12,000-12,000)]

Branch Adjustment A/c					
To	Stock Reserve	2,000	By	Goods sent to Branch A/c	20,000
To	Goods in Transit Reserve	2,000	By	Branch Stock A/c	54,000
To	Branch P&L A/c	<u>70,000</u>			<u> </u>
		<u>74,000</u>			<u>74,000</u>
Branch P & L A/c					
To	Branch Expenses A/c	24,000	By	Branch Adjustment A/c	70,000
To	Bad Debts	400			
To	Profit	<u>45,600</u>			<u> </u>
		<u>70,000</u>			<u>70,000</u>

6. (a) Calculation of Reasonable Return

	₹
10% (Bank rate 8% +2%) of capital base	87,40,000
8% on Reserve fund investments	9,60,000
½% on Loan from State Electricity Board	50,000
½% on 11% Debentures	4,000
½ on Development reserve	<u>16,000</u>
	<u>97,70,000</u>
Surplus:	
Clear Profit – Reasonable return (₹ 1,20,00,000-97,70,000)	₹ 22,30,000
20% of Reasonable Return	₹ 19,54,000
whichever is less is for disposal as surplus i.e.	₹ 19,54,000

Statement showing Disposal of surplus

	₹
(i) 1/3 rd of surplus limited to 5% of reasonable return is at the disposal of the company	4,88,500
1/3 rd of surplus = ₹ 6,51,333	
Or, 5% of reasonable return = ₹ 4,88,500	
(ii) Credit to Tariffs and Dividend Control Reserve (1/2 of remaining balance of 20% of reasonable return)	
₹ 19,54,000 – 4,88,500 = ₹ 14,65,500 x 1/2	7,32,750

(iii)	Remaining balance credited to customers account	<u>7,32,750</u>
		<u>19,54,000</u>

(b)

Total number of shares issued	10,00,000 shares
Less: Shares taken by the directors and others	<u>(1,00,000 shares)</u>
Shares offered to general public	<u>9,00,000 shares</u>

Statement Showing the Liability of Underwriters

	(Number of shares)		
	X	Y	Z
Gross liability (65%: 25%: 10%)	5,85,000	2,25,000	90,000
Less: Marked applications	<u>(1,19,500)</u>	<u>(57,500)</u>	<u>(10,500)</u>
	4,65,500	1,67,500	79,500
Less: Unmarked applications in the ratio of gross liability	<u>(4,55,000)</u>	<u>(1,75,000)</u>	<u>(70,000)</u>
Resultant Liability (or Surplus)	10,500	(7,500)	9,500
Less: Surplus of Y allocated to X and Z in the ratio of 65:10	<u>(6,500)</u>	<u>(7,500)</u>	<u>(1,000)</u>
Net Liability as per agreement	<u>4,000</u>	<u>Nil</u>	<u>8,500</u>

In the books of a Joint Stock Company

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.	11,00,000	
	To Equity Share Capital A/c		10,00,000
	To Securities Premium A/c		1,00,000
	(Being the issue of 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 1 per share to the directors, their relatives and friends as per Board's Resolution No.....dated.....)		
	Bank A/c Dr.	97,62,500	
	To Share Application A/c		97,62,500
	(Being application money received on 8,87,500 shares @ ₹ 11 each)		

X (4,000 shares x ₹ 11)	Dr.	44,000	
Z (8,500 shares x ₹ 11)	Dr.	93,500	
Share Application A/c	Dr.	97,62,500	
To Equity Share Capital A/c			90,00,000
To Securities Premium A/c			9,00,000
(Being allotment of shares to X – 4,000 and Z- 8,500, application money credited to Equity Share Capital Account and Securities Premium Account as per Board's Resolution No....dated....)			
Underwriting Commission A/c	Dr.	1,98,000	
To X (Note 1)			1,28,700
To Y (Note 1)			49,500
To Z (Note 2)			19,800
(Being the amount payable to X, Y and Z as underwriting commission @ 2% of the issue price)			
X	Dr.	84,700	
Y	Dr.	49,500	
To Bank A/c			1,34,200
(Being the amount paid to X and Y in respect of underwriting commission after adjusting amount payable on shares allotted)			
Bank A/c	Dr.	73,700	
To Z			73,700
(Being the balance money received from Z on shares allotted after adjusting underwriting commission)			

Working Note:

Statement showing the Amount Due from (Due to) Underwriters

Underwriters		X	Y	Z
Number of shares to be subscribed as per agreement		<u>4,000</u>	<u>Nil</u>	<u>8,500</u>

Amount payable @ ₹ 11 per share	(₹)	44,000	-	93,500
Less: Underwriting commission @ 2%				
X – on ₹ 64,35,000		(1,28,700)	-	-
Y – on ₹ 24,75,000		-	(49,500)	-
Z – on ₹ 9,90,000	-	-	-	<u>(19,800)</u>
Amount paid/ (received)		<u>(84,700)</u>	<u>(49,500)</u>	<u>73,700</u>

7. (a) 1. Computation of Actual Borrowing Costs incurred during the year

Source	Loan Amount	Interest Rate	Interest Amount
	₹ in lakhs		₹ in lakhs
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	<u>110.00</u>	11.5%	<u>12.65</u>
Total	<u>400.00</u>		<u>40.40</u>
Specific Borrowings included above	<u>190.00</u>		<u>17.75</u>

2. Weighted Average Capitalisation Rate for General Borrowings =

$$\frac{\text{Total Interest} - \text{Interest on Specific Borrowings}}{\text{Total Borrowings} - \text{Specific Borrowings}}$$

$$= \frac{(40.40 - 17.75)}{(400 - 190)} \times 100 = 10.79\%$$

3. Capitalisation of Borrowing Costs under AS – 16 will be as under:

Plant	Borrowing	Loan Amount	Interest Rate	Interest Amount	Cost of Asset	
		₹ in lakhs		₹ in lakhs	₹ in lakhs	₹ in lakhs
P	General	100	10.79%	10.79		110.79
Q	Specific	65	10.00%	6.50	71.50	
	General	60	10.79%	6.47	<u>66.47</u>	137.97

$$=1^{\text{st}} \text{ January, 2011} + \frac{120 \text{ months}}{5}$$

$$=1^{\text{st}} \text{ January, 2011} + 24 \text{ months} = 1^{\text{st}} \text{ January, 2013}$$

$$\text{Interest} = ₹ 25,000 \times 10/100 \times 2 \text{ years} = ₹ 5,000$$

- (d) Larger organisations often go for an ERP package where finance comes as a module. An ERP is an integrated software package that manages the business process across the entire enterprise.

Following advantages of using an ERP for maintaining accounts make ERP packages popular day by day:

1. Standardised processes and procedures : An ERP is a generalised package which covers most of the common functionalities of any specific module.
2. Standardised reporting : Majority of the desired reports are available in an ERP package. These reports are standardised across industry and are generally acceptable to the users.
3. Duplication of data entry is avoided as it is an integrated package.
4. Greater information is available through the package.

(e) Journal Entries in the Books of Bharat Ltd.

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

31.3.2010	Employees compensation expenses account	Dr.	48,000	48,000
	To Employees stock option outstanding account (Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of ₹ 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account	Dr.	48,000	48,000
	To Employees compensation expenses account (Being expenses transferred to profit and loss account at the end of the year)			
31.3.2011	Employees stock option outstanding account (W.N.1)	Dr.	12,000	12,000
	To General Reserve account (W.N.1) (Being excess of employees compensation expenses transferred to general reserve account)			
30.6.2011	Bank A/c (600 x ₹ 40)	Dr.	24,000	90,000
	Employee stock option outstanding account (600 x ₹ 120)	Dr.	72,000	
	To Equity share capital account (600 x ₹ 10)			
	To Securities premium account (600 x ₹ 150) (Being 600 employees stock option exercised at an exercise price of ₹ 40 each)			
01.10.2011	Employee stock option outstanding account	Dr.	12,000	

	To General reserve account (Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of 100 options at the end of exercise of option period)		12,000
--	---	--	--------

Working Note:

On 31.3.2011, Bharat Ltd. will examine its actual forfeitures and make necessary adjustments, if any to reflect expenses for the number of options, that have actually vested. 700 employees stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

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