

PAPER – 1 : ADVANCED ACCOUNTING

PART – I : RELEVANT ANNOUNCEMENTS, AMENDMENTS AND NOTIFICATIONS

A. Applicable for November, 2012 examination

1. Schedule VI revised by the Ministry of Corporate Affairs

The Ministry of Corporate Affairs (MCA) has revised Schedule VI to the Companies Act, 1956 on the 28th February, 2011 pertaining to the preparation of Balance Sheet and Profit and Loss Account under the Companies Act, 1956. This revised Schedule VI has been framed as per the existing non-converged Indian Accounting Standards notified under the Companies (Accounting Standards), Rules, 2006. The Revised Schedule VI shall come into force for the Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 1.4.2011.

2 Maintenance of Cash Reserve Ratio at 4.75 per cent

The Reserve Bank vide notification DBOD.No.Ret.BC.74 /12.01.001/2011-12 January 24, 2012 reduced the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks by 50 basis points from 6.00 per cent to 5.50 per cent of their Net Demand and Time Liabilities (NDTL) with effect from January 28, 2012.

However, the RBI had further reduced the Cash Reserve Ratio (CRR) of Scheduled Primary (Urban) Co-operative Banks by 75 basis points from 5.50 per cent to 4.75 per cent of their Net Demand and Time Liabilities (NDTL) vide Cir.No.3/12.03.000/ 2011-12 March 9, 2012, on reviewing the current and evolving liquidity conditions

Therefore, Cash Reserve Ratio (CRR) will be 4.75 per cent of their Net Demand and Time Liabilities (NDTL) with effect from March 10, 2012.

3 Insertion of para 46A in Accounting Standard 11 of the Companies (Accounting Standards) Rules, 2006

Ministry of Corporate Affairs vides its notification number G.S.R 914(E), dated 29th December, 2011, inserted under-mentioned para 46A in AS 11 of the Companies (Accounting Standards) Rules, 2006, now known as Companies (Accounting Standards) (Second Amendment) Rules, 2011.

“46A. (1) In respect of accounting periods commencing on or after the 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 and at the option of any other enterprise (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital assets, can be added to or deducted from the cost of the assets and shall be depreciated over the balance life of the assets, and in other cases, can be accumulated in a “Foreign Currency Monetary Item

Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long term assets or liability, by recognition as income or expense in each of such periods, with the exception of exchange differences dealt with in accordance with the provisions of paragraph 15 of the said rules.

To exercise the option referred to in sub-paragraph (1), an asset or liability shall be designated as long-term foreign currency monetary item, if the asset or liability is expressed in a foreign currency and has a term of twelve months or more at the date of origination of the asset or the liability.

Provided that the option exercised by the enterprise shall disclose the fact of such option and of the amount remaining to be amortized in the financial statements of the period in which such option is exercised and in every subsequent period so long as any exchange difference remains unamortized."

Note: The principal regulations were published in the Gazette of India Extraordinary, Part II, Section 3, Sub Section (i) vide G.S.R 739(E), dated the 7th December, 2006 and amended vide notification number G.S.R. 212(E), dated the 27th March, 2008 and subsequently amended by No. G.S.R. 225(E) dated 31st March, 2009 and No. G.S.R. 378(E), dated 11th May, 2011.

4. Limited Revisions due to Issuance of AS 30 and 31

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

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

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

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

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

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

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

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

- 1. Sub-Standard Advances:** Advances classified as “sub-standard” will attract a provision of 15 per cent as against the existing 10 per cent. The “unsecured exposures” classified as sub-standard assets will attract an additional provision of 10 per cent, i.e., a total of 25 per cent as against the existing 20 per cent. However, “unsecured exposures” in respect of Infrastructure loan accounts classified as sub-standard, in case of which certain safeguards such as escrow accounts are available will attract an additional provision of 5 per cent only i.e. a total of 20 per cent as against the existing 15 per cent.
- 2. Doubtful Advances:** Doubtful Advances will continue to attract 100% provision to the extent the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis. However, in respect of the secured portion, following provisioning requirements will be applicable:
 - (i) The secured portion of advances which have remained in “doubtful” category up to one year will attract a provision of 25 per cent (as against the existing 20 per cent);
 - (ii) The secured portion of advances which have remained in “doubtful” category for more than one year but upto 3 years will attract a provision of 40 per cent (as against the existing 30 per cent); and
 - (iii) The secured portion of advances which have remained in “doubtful” category for more than 3 years will continue to attract a provision of 100%.
- 3. Restructured Advances:**
 - (i) **Restructured accounts classified as standard advances** will attract a provision of 2 per cent in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract a provision of 2 per cent for the period covering moratorium and two years thereafter (as against existing provision of 0.25-1.00 per cent, depending upon the

category of advances); and

- (ii) **Restructured accounts classified as non-performing advances**, when upgraded to standard category will attract a provision of 2 per cent in the first year from the date of upgradation (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances).

4. All other instructions on provisioning will remain unchanged.

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

Category of Advances	Existing Rate (%)	Revised Rate (%)
Sub- standard Advances		
• Secured Exposures	10	15
• Unsecured Exposures	20	25
• Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available.	15	20
Doubtful Advances – Unsecured Portion	100	100
Doubtful Advances – Secured Portion		
• For Doubtful upto 1 year	20	25
• For Doubtful > 1 year and upto 3 years	30	40
• For Doubtful > 3 years	100	100
Loss Advances	100	100
Restructured accounts classified as standard advances in the first two years from the date of restructuring; and in cases of moratorium on payment of interest/principal after restructuring – period covering moratorium and two years thereafter.	0.25 to 1.00 (depending upon the category of advance)	2
Restructured accounts earlier classified as NPA and later upgraded to standard category in the first year from the date of upgradation	0.25 to 1.00 (depending upon the category of advance)	2

B. Not Applicable for November, 2012 Examination

Ind ASs issued by the Ministry of Corporate Affairs

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

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Profit or Loss Prior to Incorporation

1. (a) Aman Ltd. was incorporated on 1.7.2011 and it took over the business of a vendor w.e.f. 1.4.2011. Following information was made available for the year ended 31.3.2012:

Gross profit ₹ 98,000, Commission ₹ 2,625, Advertisement ₹ 5,250, Discount ₹ 350, Directors Fees ₹ 9,000, Salaries ₹ 18,000, Depreciation ₹ 2,800. Insurance ₹ 600, Preliminary Expenses ₹ 700, Rent and Taxes ₹ 3,000, Bad Debts ₹ 1,250, Interest to vendor (upto 1.10.2011) ₹ 2,000, Audit Fee ₹ 2,000 and Bad Debts recovered (on 1.5.2011) ₹ 500.

Following additional information was provided:

1. Average monthly turnover from September onwards was double than that of average monthly turnover of the first four months. However, in August, 2011, the turnover was 150% of the turnover in the following month.
2. Rent for the first three months was paid @ ₹ 20 per month and thereafter, it was increased by ₹ 50 per month.
3. Bad debts for the period from September 1, 2011 to March 31, 2012 amount to ₹ 350 only.
4. Audit fee was allocated on time basis.

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

Cash Flow Statement

- (b) From the following Balance Sheets of Mr. Kunaal, prepare a Cash Flow Statement as per AS 3 for the year ended 31.3.2012:

Balance Sheets of Mr. Kunaal

	As on 1.4.2011	As on 31.3.2012
	₹	₹
Liabilities:		
Kunaal's Capital Account	5,00,000	6,12,000
Sundry creditors	1,60,000	1,76,000
Mrs. Kunaal's loan	1,00,000	--

Long term loan from bank	1,60,000	2,00,000
	9,20,000	9,88,000
Assets:		
Land	3,00,000	4,40,000
Plant and Machinery	3,20,000	2,20,000
Stock	1,40,000	1,00,000
Debtors	1,20,000	2,00,000
Cash	40,000	28,000
	9,20,000	9,88,000

Additional information:

A machine costing ₹ 40,000 (accumulated depreciation there on ₹ 12,000) was sold for ₹ 20,000. The provision for depreciation on 1.4.2011 was ₹ 1,00,000 and on 31.3.2012 was ₹ 1,60,000. The net profit for the year ended on 31.3.2012 was ₹ 1,80,000.

Buy-Back of Shares

2. (a) Ekta Limited furnishes the following Balance Sheet as at 31st March, 2012:

Liabilities	₹'000	₹'000
Share Capital:		
Authorised Capital		30,00
Issued and subscribed capital:		
2,50,000 equity shares of ₹10 each fully paid up	25,00	
2,000, 10% Preference shares of ₹100 each (Issued two months back for the purpose of buy back)	2,00	27,00
Reserves and Surplus:		
Capital Reserve	10,00	
Revenue Reserve	30,00	
Securities Premium	22,00	
Profit and Loss A/c	35,00	
		97,00
Current liabilities		14,00
		1,38,00
Assets	₹'000	₹'000
Fixed assets		93,00
Investments		30,00
Current assets (Including cash and bank balance)		15,00
		13,800

The company passed a resolution to buy back 20% of its equity capital @ ₹ 50 per share. For this purpose, it sold all of its investments for ₹ 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

Underwriting of Shares

- (b) Special Ltd. invited applications from public for 1,00,000 equity shares of ₹10 each at a premium of ₹ 5 per share. The entire issue was underwritten by the underwriters A, B, C and D to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000, 2,000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law.

The company received applications for 70,000 shares (excluding firm underwriting) from public, out of which applications for 19,000, 10,000, 21,000 and 8,000 shares were marked in favour of A, B, C and D respectively.

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

Amalgamation

3. Following is the summarized Balance Sheet as at March 31, 2012:

				(₹'000)	
Liabilities	M Ltd.	N Ltd.	Assets	M Ltd.	N Ltd.
Share capital:			Goodwill	40	—
Equity shares of ₹ 100 each	3,000	2,000	Other fixed assets	3,000	1,520
9% Preference shares of ₹ 100 each	1000	800	Debtors	1302	880
General reserve	360	340	Stock	786	1,360
Profit and loss account	—	30	Cash at bank	52	260
12% Debentures of ₹ 100 each	1200	400	Own debenture (Nominal value ₹ 4,00,000)	384	
Sundry creditors	830	450	Discount on issue of debentures	4	
			Profit and loss account	822	
	<u>6,390</u>	<u>4,020</u>		<u>6,390</u>	<u>4,020</u>

On 1.4.2012, M Ltd. adopted the following scheme of reconstruction:

- Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.
- Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.

- (iii) Own debentures of ₹ 1,60,000 were sold at ₹ 98 cum-interest and remaining own debentures were cancelled.
- (iv) Debentureholders of ₹ 5,60,000 agreed to accept one machinery of book value of ₹ 6,00,000 in full settlement.
- (v) Creditors, debtors and stocks were valued at ₹ 7,00,000, ₹ 11,80,000 and ₹ 7,20,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.
- (vi) The Company paid ₹ 30,000 as penalty to avoid capital commitments of ₹ 6,00,000.

On 2.4.2012 a scheme of absorption was adopted. M Ltd. would take over N Ltd. The purchase consideration was fixed as below:

- (a) Equity shareholders of N Ltd. will be given 50 equity shares of ₹ 10 each fully paid up, in exchange for every 5 shares held in N Ltd.
- (b) Issue of 9% preference shares of ₹ 100 each in the ratio of 4 preference shares of M Ltd. for every 5 preference shares held in N Ltd.
- (c) Issue of one 12% debenture of ₹ 100 each of M Ltd. for every 12% debentures in N Ltd.

You are required to give Journal entries in the books of M Ltd. and draw the resultant Balance Sheet as at 2nd April, 2012

Internal Reconstruction of a Company

4. The Balance Sheet of Strong Limited as on 31st March, 2012 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
5,00,000 Equity Shares of ₹ 10 each fully paid	50,00,000	Goodwill	10,00,000
9% 20,000 Preference shares of ₹100 each fully paid	20,00,000	Patent	5,00,000
10% First debentures	6,00,000	Land and Building	30,00,000
10% Second debentures	10,00,000	Plant and Machinery	10,00,000
Debentures interest outstanding	1,60,000	Furniture and Fixtures	2,00,000
Trade creditors	5,00,000	Computers	3,00,000
Directors' loan	1,00,000	Trade Investment	5,00,000
Bank O/D	1,00,000	Debtors	5,00,000
Outstanding liabilities	40,000	Stock	10,00,000
Provision for Tax	1,00,000	Discount on issue of debentures	1,00,000
	<u>96,00,000</u>	Profit and Loss Account (Loss)	<u>15,00,000</u>
			<u>96,00,000</u>

Note: Preference dividend is in arrears for last three years.

'HE' holds 10% first debentures for ₹ 4,00,000 and 10% second debentures for ₹6,00,000. He is also creditors for ₹ 1,00,000. 'SHE' holds 10% first debentures for ₹ 2,00,000 and 10% second debentures for ₹ 4,00,000 and is also creditors for ₹ 50,000.

The following scheme of reconstruction has been agreed upon and duly approved by the court.

- (i) All the equity shares be converted into fully paid equity shares of ₹5 each.
- (ii) The preference shares be reduced to ₹ 50 each and the preference shareholders agree to forego their arrears of preference dividends in consideration of which 9% preference shares are to be converted into 10% preference shares.
- (iii) Mr. 'HE' is to cancel ₹ 6,00,000 of his total debt including interest on debentures and to pay ₹1 lakh to the company and to receive new 12% debentures for the Balance amount.
- (iv) Mr. 'SHE' is to cancel ₹ 3,00,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.
- (v) Trade creditors (other than 'HE' and 'SHE') agreed to forego 50% of their claim.
- (vi) Directors to accept settlement of their loans as to 60% thereof by allotment of equity shares and balance being waived.
- (vii) There were capital commitments totalling ₹ 3,00,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- (viii) The Directors refund ₹ 1,10,000 of the fees previously received by them.
- (ix) Reconstruction expenses paid ₹10,000.
- (x) The taxation liability of the company is settled at ₹ 80,000 and the same is paid immediately.
- (xi) The assets are revalued as under:

	₹
Land and Building	28,00,000
Plant and Machinery	4,00,000
Stock	7,00,000
Debtors	3,00,000
Computers	1,80,000
Furniture and Fixtures	1,00,000
Trade Investment	4,00,000

Pass Journal entries for all the above mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit & Loss Account and Discount on issue of

debentures. Prepare Bank Account and working of allocation of Interest on Debentures between 'HE' and 'SHE'.

Liquidation of a company

5. The following is the Balance Sheet of Hemant Builders Ltd., as on 30th September, 2012:

Liabilities	₹	Assets	₹
Share Capital :		Land and Buildings	1,20,000
Issued : 11% Preference		Sundry Current Assets	3,95,000
Shares of ₹ 10 each	1,00,000	Profit & Loss Account	38,500
10,000 Equity Shares of		Debenture Issue	
₹ 10 each, fully paid up	1,00,000	Expenses not written	
5,000 Equity shares of		off	2,000
₹ 10 each, ₹ 7.50 per share paid-up	37,500		
13% Debentures	1,50,000		
Mortgage Loan	80,000		
Bank overdraft	30,000		
Creditors for Trade	32,000		
Income tax-arrears :			
(Assessment concluded in July, 2012)			
Assessment Yr. 2010-11	21,000		
Assessment Yr. 2011-12	<u>5,000</u>		
	26,000		
	<u>5,55,500</u>		<u>5,55,500</u>

Mortgage loan was secured against Land and Buildings. Debentures were secured by a floating charge on all the other assets. The company was unable to meet the payments and therefore the debenture holders appointed a Receiver and this was followed by a resolution for members voluntary winding up. The Receiver for the debenture holders brought the land and buildings to auction and realised ₹ 1,50,000. He also took charge of sundry assets of the value of ₹ 2,40,000 and realised ₹ 2,00,000. The Liquidator realised ₹ 1,00,000 on the sale of the balance of sundry current assets. The bank overdraft was secured by a personal guarantee of two of the directors of the company and on the Bank raising a demand the Directors paid off the dues from their personal resources. Costs incurred by the Receiver were ₹ 2,000 and by the Liquidator ₹ 2,800. The Receiver was not entitled to any remuneration but the Liquidator was to receive 3% fee on the value of assets realised by him. Preference shareholders had not been paid dividend for the period after 30th September, 2010 and interest for the last half-year was due to debenture holders.

Prepare the Accounts to be submitted by the Receiver and the Liquidator.

Financial Statements of Banking Companies

6. Following information is furnished to you by Sona Bank Ltd. for the year ended 31st March, 2012:

	(₹ in thousands)
Interest and discount - (Income)	8,860
Interest on public deposits – (Expenditure)	2,720
Operating expenses	2,662
Other incomes	250
Provisions and contingencies (it includes provision in respect of Non-performing Assets (NPAs) and tax provisions)	2,004
Rebate on bills discounted to be provided for as on 31.3.2012	30
Classification of Advances:	
Standard Assets	5,000
Sub-standard Assets	1,120
Doubtful Assets – fully unsecured	200
Doubtful assets – fully secured	
Less than 1 year	50
More than 1 year but less than 3 years	300
More than 3 years	300
Loss assets	200

You are required to prepare:

- Profit and Loss Account of the Bank for the year ended 31st March, 2012.
- Provision in respect of advances.

Financial Statements of Insurance Companies

7. From the following information as on 31st March, 2012, prepare the Revenue Accounts of Big Co. Ltd. engaged in Marine Insurance Business:

Particulars	Direct Business (₹)	Re-insurance (₹)
I. Premium :		
Received	24,00,000	3,60,000
Receivable – 1st April, 2011	1,20,000	21,000
– 31st March, 2012	1,80,000	28,000
Premium paid	2,40,000	–
Payable – 1st April, 2011	–	20,000

	– 31st March, 2012	–	42,000
II.	Claims :		
	Paid	16,50,000	1,25,000
	Payable – 1st April, 2011	95,000	13,000
	– 31st March, 2012	1,75,000	22,000
	Received	–	1,00,000
	Receivable – 1st April, 2011	–	9,000
	– 31st March, 2012	–	12,000
III.	Commission :		
	On Insurance accepted	1,50,000	11,000
	On Insurance ceded	–	14,000

Other expenses and income:

Salaries – ₹ 2,60,000; Rent, Rates and Taxes – ₹ 18,000; Printing and Stationery – ₹ 23,000; Indian Income Tax paid – ₹ 2,40,000; Interest, Dividend and Rent received (net) – ₹ 1,15,500; Income Tax deducted at source – ₹ 24,500; Legal Expenses (Inclusive of ₹ 20,000 in connection with the settlement of claims) – ₹ 60,000; Bad Debts – ₹ 5,000; Double Income Tax refund – ₹ 12,000; Profit on Sale of Motor car ₹ 5,000.

Balance of Fund on 1st April, 2011 was ₹ 26,50,000 including Additional Reserve of ₹ 3,25,000. Additional Reserve has to be maintained at 5% of the net premium of the year.

Financial Statements of Electricity Company

8. The trial balance of Roshni Electric Supply Ltd. for the year ended 31st March, 2012 is as below:

(₹ '000)		
Particulars	Dr.	Cr.
Share Capital :		
Equity Shares of ₹ 10 each		62,50
14% Preference Shares of ₹ 100 each		18,75
Patents and trademark	313	
15% Debentures		30,87.5
16% Term Loan		19,12.5
Land (additions during the year 256.25)	15,56.25	
Building (additions during the year 635)	43,91.75	

Plant & Machinery	71,32.25	
Mains	565.5	
Meters	393.75	
Electrical Instrument	191.25	
Office furniture	306.25	
Capital reserve		627.5
Contingency reserves		15,03.75
Transformers	20,55	
Net revenue account		668.75
Stock in hand	15,06.25	
Sundry debtors	780.75	
Contingency reserve investment	15,01.25	
Cash & Bank	406.75	
Public lamps	380	
Depreciation fund		32,27
Sundry Creditors		815.5
Proposed dividend		15,12.5
	214,80	214,80

During 2011-12, ₹ ('000) 12,50 of 14% preference shares were redeemed at a premium of 10% out of proceeds of fresh issue of equity shares of necessary amounts at a premium of 10%.

Prepare for the above period Balance Sheet as on 31st March, 2012 as per the revised Schedule VI.

Average Due Date

9. (a) Energy purchases goods on credit. His due dates for payments were as under:

Transaction Date	₹	Due Date
March 5	300	April 08
April 15	200	May 18
May 10	275	June 13
June 5	400	July 08

Calculate Average due date.

Account Current

- (b). Following transactions took place between L and M during the month of April, 2012:

Date	Particulars	₹
1.4.2012	Amount payable by L to M	10,000
7.4.2012	Received acceptance of L to M for 2 months	5,000
10.4.2012	Bills receivable (accepted by M) on 7.2.2012 is honoured on this due date	10,000
10.4.2012	L sold goods to M (due date 10.5.2012)	15,000
12.4.2012	L received cheque from M (due date 15.5.2012)	7,500
15.4.2012	M sold goods to L (due date 15.5.2012)	6,000
20.4.2012	L returned goods sold by M on 15.4.2012	1,000
20.4.2012	Bill accepted by M is dishonoured on this due date	5,000

Prepare the M's account in the books of L for the month of April, 2012, taking interest into account @18% p.a.

Self – Balancing Ledgers

10. On 1st April, 2012 the details of the balances owed by customers were as following:-

	₹
Om	1,500
Ram (Considered to be 60% bad; adequate provision maintained)	2,100
Sohan	1,800
Others	<u>35,600</u>
	<u>41,000</u>
Less: Advance by Kamal	<u>2,000</u>
	<u>39,000</u>

Sales during the month totaled ₹ 1,55,500 including ₹ 1,11,400 as cash sales; of the credit sale, a sale of ₹ 2,600 was to Kamal. Om returned goods to the extent of ₹ 500 and sent a bill receivable accepted by 'A' for the balance. A sum of ₹ 450 was received from Ram and the balance was written off. On instructions from B, Sohan's balance was transferred to B's account in the Creditors Ledger. A's acceptance as dishonoured and noting charges were ₹ 10. R sent an advance of ₹ 1,800 for supply of goods. Out of the amount due from "others" on April 1, 2012 a sum of ₹ 27,300 was received; the customers had earned 2½% discount on the amount paid. Similarly, out of the sales in April, a sum of ₹ 9,750 had been received, earning discount at the same rate.

C who owed ₹ 1,100 and R who owed ₹ 800 turned doubtful; a provision of 50% of the amounts due was created. All other debts were considered good.

Prepare Total Debtors account for April 2012.

Accounting for Not-For-Profit Organisations

11. The Accountant of Strong Club furnishes you the following receipts and payments account for the year ending 30th September, 2012:

<i>Receipts</i>	<i>Amount</i>	<i>Payments</i>	<i>Amount</i>
	₹		₹
Opening balance:		Honoraria to secretary	9,600
Cash and bank	16,760	Misc. expenses	3,060
Subscription	21,420	Rates and taxes	2,520
Sale of old newspapers	4,800	Groundman's wages	1,680
Entertainment fees	8,540	Printing and stationary	940
Bank interest	460	Telephone expenses	4,780
Bar receipts	14,900	Payment for bar purchases	11,540
		Repairs	640
		New car (Less sale proceeds of old car of ₹ 6,000)	25,200
		Closing balance:	
		Cash and bank	<u>6,920</u>
	<u>66,880</u>		<u>66,880</u>

Additional informations:

	1.10.2011	30.9.2012
	₹	₹
Subscription due (not received)	2,400	1,960
Cheques issued, but not presented for payment of printing	180	60
Club premises at cost	58,000	-
Depreciation on club premises provided so far	37,600	-
Car at cost	24,380	-
Depreciation on car	20,580	-
Value of Bar stock	1,420	1,740
Amount unpaid for bar purchases	1,180	860
Depreciation is to be provided @ 5% p.a. on the written down value of the club premises and @ 15% p.a. on car for the whole year.		

You are required to prepare an income and expenditure account of Strong Club for the year ending 30th September, 2012 and balance sheet as on that date.

Accounts from Incomplete Records

12. Shri Ashok furnishes you with the following information relating to his business :

(a)

<i>Assets and liabilities as on</i>	<i>1.1.2012</i>	<i>31.12.2012</i>
	₹	₹
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry Debtors	16,000	?
Sundry Creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

(b) Receipts and payments during 2012:

Collections from debtors, after allowing discount of ₹ 1,500 amounted to ₹ 58,500. Collections on discounting of bills of exchange, after deduction of discount of ₹ 125 by the bank, totalled to ₹ 6,125. Creditors of ₹ 40,000 were paid ₹ 39,200 in full settlement of their dues. Payment for freight inwards ₹ 3,000. Amount withdrawn for personal use ₹ 7,000. Payment for office furniture ₹ 1,000. Investment carrying annual interest of 4% was purchased at ₹ 96 on 1st July, 2012 and payment made there for. Expenses including salaries paid ₹ 14,500. Miscellaneous receipts ₹ 500.

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

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

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

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

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

Shri Ashok asks you to prepare Trading and Profit and Loss A/c for the year ended 31st December, 2012 and the balance sheet as on that date.

Hire–Purchase Instalment Payment System

- 13 (a) Accent Ltd. has a hire-purchase department which fixes hire-purchase price by adding 40% to the cost of the goods. The following additional information is provided to you :

	₹
On 1 st April, 2011 :	
Goods out on hire-purchase (at hire-purchase price)	2,10,000
Instalments due	14,000
Transactions during the year :	
Hire-purchase price of goods sold	9,80,000
Instalments received	8,12,000
Value of goods repossessed due to defaults (hire-purchase instalments unpaid ₹ 5,600)	7,800
On 31 st March, 2012:	
Goods out on hire-purchase (at hire-purchase price)	3,78,000

You are required to prepare Hire-purchase Trading Account, ascertaining the profit made by the department during the year ended 31st March, 2012.

Investments Accounts

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

15.6.2011	Purchased	3,000 NCD, ex-interest @ ₹ 96 each
15.9.2011	Sold	3,000 NCD, ex-interest @ ₹ 100 each
15.12.2011	Purchased	2,000 NCD, cum interest @ ₹ 99 each
15.2.2012	Sold	2,000 NCD, cum interest @ ₹ 102 each

Opening balance of NCD of ₹ 100 each was ₹ 2,00,000 on 1.4.2011 and Cost of acquisition was ₹ 1,80,000. Interest payment dates on NCD are 30th June and 31st December. Kumar follows financial year as accounting year.

Branch Accounting

14. (a) Time & Co., with its Head Office at Delhi has a branch at Kanpur. Goods are invoiced to the Branch at cost plus 33 1/3%. The following information is given in respect of the branch for the year ended 31st March, 2012:

	₹
Goods sent to Branch (Invoice price)	4,80,000
Stock at Branch on 1.4.2011 (Invoice price)	24,000
Cash sales	1,80,000
Return of goods by customers to the Branch	6,000
Branch expenses (paid in cash)	53,500
Branch debtors balance on 1.4.2011	30,000
Discount allowed	1,000
Bad debts	1,500
Collection from Debtors	2,70,000
Branch debtors cheques returned dishonoured	5,000
Stock at Branch on 31.3.2012 (Invoice price)	48,000
Branch debtors balance on 31.3.2012	36,500

Prepare, under the Stock and Debtors system, the following Ledger Accounts in the books of the Head Office:

- (i) Kanpur Branch Stock Account
- (ii) Kanpur Branch Debtors Account
- (iii) Kanpur Branch Adjustment Account.

Also compute shortage of Stock at Branch, if any.

Insurance Claim for Loss of Stock

- (b) A fire occurred in the premises of Hanuman Sons on 15th October, 2011 and normal business operations were restored on 1st April, 2012. The company had taken loss of profit policy for ₹ 1,50,000 with indemnity period of six months and a clause for adjustment of 20% to be made in respect of the expected incremental turnover.

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

	₹
Actual turnover from 15 th October, 2011 to 31 st March, 2012	1,20,000
Turnover during the corresponding period of previous year	2,40,000
Turnover from 15 th October, 2010 to 14 th October, 2011	4,80,000
Net profit for the last financial year	90,000
Insured standing charges for the last financial year	67,500
Turnover for the last financial year	4,50,000

Partnership: Death of a partner

15. (a) M, N and O were partners of a firm sharing profits and losses in the ratio of 3 : 4 : 3. The Balance Sheet of the firm, as at 31st March, 2011 was as under:

Liabilities	₹	Assets	₹
Capital Accounts		Fixed Assets	1,00,000
M 48,000		Current Assets :	
N 64,000		Stock 30,000	
O <u>48,000</u>	1,60,000	Debtors 60,000	
Reserve 20,000		Cash and Bank <u>30,000</u>	1,20,000
Creditors 40,000			
	2,20,000		2,20,000

The firm had taken a Joint Life Policy for ₹ 1,00,000; the premium periodically paid was charged to Profit and Loss Account. Partner O died on 30th September, 2011. It was agreed between the surviving partners and the legal representatives of O that:

- Goodwill of the firm will be taken at ₹ 60,000.
- Fixed Assets will be written down by ₹ 20,000.
- In lieu of profits, O should be paid at the rate of 25% per annum on his capital as on 31st March, 2011.

Policy money was received and the legal heirs were paid off. The profits for the year ended 31st March, 2012, after charging depreciation of ₹ 10,000 (depreciation upto 30th September was agreed to be ₹ 6,000) were ₹ 48,000.

Partners' Drawings Accounts showed balances as under :

M	₹ 18,000 (drawn evenly over the year)
N	₹ 24,000 (drawn evenly over the year)
O	(up-to-date of death) ₹ 20,000

On the basis of the above figures, please indicate the entitlement of the legal heirs of O, assuming that they had not been paid anything other than the share in the Joint Life Policy.

Revised Schedule VI

- (b) Define following terms as per Revised Schedule VI.

Current Assets & Non-Current Assets, Current Liabilities & Non-Current Liabilities, Operating Cycle

Accounting in Computerized Environment

16. "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?

AS-1

17. (a) Explain the concept of 'materiality' in brief.

AS-2

- (b) In order to value the inventory of finished goods, Sona Ltd. has adopted the standard cost of raw material, labour and overheads. Income tax officer wants to know the method, as per AS-2, for the valuation of raw material.

AS-4

- (c) While preparing its final accounts for the year ended 31st March 2012, a company made a provision for bad debts @ 4% of its total debtors (as per trend follows from the previous years). In the first week of March 2012, a debtor for ₹ 3,00,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2012 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2012.

AS-5

- (d) A limited company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2011-2012.

Subsequently on a review of the credit period allowed and financial capacity of the customers, the company decided to increase the provision to 8% on debtors as on 31.3.2012. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard can this revision be considered as an extraordinary item or prior period item?

AS-6

18. (a) Amar Ltd. has two divisions. It provides depreciation for both divisions on straight line basis as per rates prescribed by Schedule XIV to the Companies Act. While finalizing the accounts for the year ended 31-3-2012, it however wants to change the method to Written Down Value method for one of its divisions since in the opinion of the management the assets of the said division suffer faster wear and tear. Please advise the company on the above and also whether the change should be prospective or retrospective.

AS-7

- (b) Mr. 'Lal' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'Lal' will receive an additional ₹ 2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. Lal wants to recognize this revenue since in the past he has been able to meet similar targets very easily.

AS-9

- (c) Token company has taken a Transit Insurance Policy. Suddenly in the year 2011-2012 the percentage of accident has gone up to 7% and the company wants to recognise insurance claim as revenue in 2011-2012 in accordance with relevant Accounting Standard. Do you agree?

AS-10

- (d) A newly set up Lion Private Ltd. manufacturing company has incurred following expenditures for the acquisition of plant & Machinery:
- (i) Foreign tour expenses of directors for purchasing Plant & Machinery.
 - (ii) Technical staff's salary for erection of Plant & Machinery.
 - (iii) Non-technical staff's salary during the period of installation of Plant & Machinery
 - (iv) Other sundry expenses such as stationery, printing, postage, telegram and telephone and local conveyance charge etc.

The company intends to capitalize the above expenses. Is the company justified? State with reasons.

AS-3

19. (a) Raman Ltd. acquired fixed assets viz. plant and machinery for ₹ 20 lakhs. During the same year it sold its furniture and fixtures for ₹ 5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS-3?

AS-13

- (b) An unquoted long-term investment is carried in the books at cost of ₹ 2 lacs. The published accounts of unlisted company received in May, 2012 showed that the company has incurred cash losses with decline market share and the long-term investment may not fetch more than ₹ 20,000. How you will deal with it in the financial statement of investing company for the year ended 31.3.2012?

AS-12

- (c) Gandhi Ltd. received a grant of ₹ 2,500 lakhs during the last accounting year (2010-

11) 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 2011-12, it was found that the conditions of grants 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.

AS-16

- (d) On 1st April, 2011, Ozon Construction Ltd. obtained a loan of ₹ 32 crores to be utilized as under:
- (i) Construction of sealink across two cities:
(work was held up totally for a month during the year : ₹ 25 crores
due to high water levels)
 - (ii) Purchase of equipments and machineries : ₹ 3 crores
 - (iii) Working capital : ₹ 2 crores
 - (iv) Purchase of vehicles : ₹ 50,00,000
 - (v) Advance for tools/cranes etc. : ₹ 50,00,000
 - (vi) Purchase of technical know-how : ₹ 1 crores
 - (vii) Total interest charged by the bank for the year ending : ₹ 80,00,000
31st March, 2012

Show the treatment of interest by Ozon Construction Ltd.

AS-19

20. (a) G Ltd. leased a machine to H Ltd. on the following terms:

	(₹ in lakhs)
Fair value of the machine	4.00
Lease term	5 years
Lease Rental Per annum	1.00
Guaranteed Residual value	0.20
Expected Residual value	0.40
Internal Rate of Return	15%

Depreciation is provided on straight line method at 10 per cent per annum. Ascertain Unearned Financial Income

AS-20

- (b) Calculate the diluted earnings per share from the following information:

Net profit for the current year (after tax) ₹ 85,50,000

Number of equity shares outstanding	20,00,000
Number of 8% convertible debentures of ₹ 100 each (Each debenture is convertible into 10 equity shares)	1,00,000
Interest expenses for the current year	₹ 8,00,000
Tax relating to interest expenses	30%

AS-26

- (c) Ram Ltd. launched a project for producing product X in Nov. 2010. The company incurred ₹ 30 lakhs towards research and development expenses up to 31st March, 2012. Due to unfavourable market conditions the management feels that it is not possible to manufacture and sell the product in the market for next so many years. The management hence wants to defer the expenditure write off to future years. Advise the company as per the applicable Accounting Standard.

AS-29

- (d) Suraj Ltd. took a factory premises on lease on 1.4.09 for ₹ 2,00,000 per month. The lease is operating lease. During March, 2010, Suraj Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2012. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2012 should be provided in the accounts for the year ending 31.3.2010. Suraj Ltd. seeks your advice.

SUGGESTED ANSWERS/HINTS**1 (a)****Profit and Loss Account**

showing calculation of pre-incorporation and post-incorporation profit

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
		₹	₹			₹	₹
To Commission	(1:6)	375	2,250	By Gross Profit	(1:6)	14,000	84,000
To Advertisement	(1:6)	750	4,500	By Bad Debts	Actual	500	-
To Discount	(1:6)	50	300	Realised			
To Directors Fees	Actual	-	9,000				
To Salaries	(1:3)	4,500	13,500				
To Depreciation	(1:3)	700	2,100				
To Insurance	(1:3)	150	450				
To Preliminary Expenses	Actual	-	700				

To Rent	(W.N.3)	60	630				
To Taxes	(W.N.3)	578	1,732				
To Bad Debts	(W.N.4)	386	864				
To Interest to vendor (upto 1-10-2011)	(1:1)	1,000	1,000				
To Audit Fees	(1:3)	500	1,500				
To Capital reserve		5,451					
To Net profit			45,474				
		<u>14,500</u>	<u>84,000</u>			<u>14,500</u>	<u>84,000</u>

Working Notes:**1. Calculation of Sales Ratio:**

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

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

Monthly turnover during August = 150% of 200 = 300

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

Turnover during post-incorporation period (for July + August + September to March)

$$= 100 + 300 + (200 \times 7) = 1,800$$

$$\text{Sales Ratio} = 300: 1,800 = 1:6$$

2. Calculation of Time ratio:

April 2011 to June 2011 : July 2011 to March 2012

3 months : 9 months or 1:3

3. Break-up of Rent and Taxes:

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

$$\text{Taxes} = 3,000 - 690 = 2,310.$$

4. Allocation of Bad Debts:

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

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

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

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

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

and Pre-incorporation bad debts = ₹ 386

(b)

**Cash Flow Statement of Mr. Kunaal
for the year ended 31.3.2012**

		₹
(i) Cash flow from operating activities		
Net Profit (given)		1,80,000
Adjustments for		
Depreciation on Plant & Machinery (W.N.2)	72,000	
Loss on Sale of Machinery (W.N.1)	<u>8,000</u>	<u>80,000</u>
Operating Profit before working capital changes		2,60,000
Decrease in Stock	40,000	
Increase in Debtors	(80,000)	
Increase in Creditors	<u>16,000</u>	<u>(24,000)</u>
Net cash from operating activities		2,36,000
(ii) Cash flow from investing activities		
Sale of Machinery	20,000	
Purchase of Land (4,40,000 – 3,00,000)	<u>(1,40,000)</u>	
Net cash used in investing activities		(1,20,000)
(iii) Cash flow from financing activities		
Repayment of Mrs. Kunaal's Loan	(1,00,000)	
Drawings (W.N.3)	(68,000)	
Loan from Bank	<u>40,000</u>	
Net cash used in financing activities		<u>(1,28,000)</u>
Net decrease in cash		(12,000)
Cash balance as on 1.4.2011		<u>40,000</u>
Cash balance as on 31.3.2012		<u>28,000</u>

Working Notes:**1. Plant & Machinery A/c**

	₹		₹
To Balance b/d	4,20,000	By Bank – Sales	20,000
(3,20,000 + 1,00,000)		By Provision for Depreciation A/c	12,000
		By Profit & Loss A/c – Loss on Sale (40,000 – 20,000 – 12,000)	8,000
		By Balance c/d (2,20,000+1,60,000)	<u>3,80,000</u>
	<u>4,20,000</u>		<u>4,20,000</u>

2. Provision for depreciation on Plant and Machinery A/c

	₹		₹
To Plant and Machinery A/c	12,000	By Balance b/d	1,00,000
To Balance c/d	<u>1,60,000</u>	By Profit & Loss A/c (Bal.fig.)	<u>72,000</u>
	<u>1,72,000</u>		<u>1,72,000</u>

3. Mr. Kunaal's drawings

	₹
Opening Capital	5,00,000
Add: Net Profit	<u>1,80,000</u>
	6,80,000
Less: Closing Capital	<u>(6,12,000)</u>
Drawings (Bal. fig.)	<u>68,000</u>

2. (a) Books of Ekta Limited
Journal Entries

Date	Particulars		Dr. '000	Cr. '000
	Bank A/c	Dr.	22,00	
	Profit and Loss A/c	Dr.	8,00	
	To Investment A/c			30,00
	(Being the Sale of all investments)			
	Equity Share Capital A/c	Dr.	5,00	
	Premium payable on buy back A/c	Dr.	20,00	
	To Equity share holders A/c / Equity shares buy back A/c			25,00
	(Being the amount due on buy back)			
	Securities Premium A/c	Dr.	20,00	
	To Premium payable on buy back A/c			20,00
	(Being the premium payable on buy back provided for)			
	Securities Premium A/c	Dr.	2,00	
	Revenue Reserve A/c	Dr.	1,00	
	To Capital Redemption Reserve A/c			3,00
	(Being the amount equal to nominal value of equity shares bought back out of securities premium and free reserves transferred to capital redemption reserve a/c)			

Equity Shareholders A/c / Equity shares buy-back A/c	Dr.	25,00	
To Bank A/c			25,00
(Being the payment made on buy back)			

Balance Sheet of Ekta Limited as on 1st April, 2012**(After buy back of shares)**

		Particulars	Note No	Amount
				₹'000
		EQUITY AND LIABILITIES		
1		Shareholders' funds		
	(a)	Share capital	1	22,00
	(b)	Reserves and Surplus	2	69,00
2		Non-current liabilities		
3		Current liabilities		<u>14,00</u>
		Total		<u>10,500</u>
		ASSETS		
1		Non-current assets		
	(a)	Fixed assets		93,00
2		Current assets		
		(including cash and bank balance) (15,00+22,00- 25,00)		<u>2,00</u>
		Total		<u>10,500</u>

Notes to accounts

		₹	₹
1.	Share Capital		
	Authorised Capital:		<u>30,00</u>
	2,00,000 equity shares of ₹10 each fully paid up	20,00	
	2,000 10% Preference shares of ₹100 each fully paid up	<u>2,00</u>	22,00
2.	Reserves and Surplus		
	Capital Reserve	10,00	
	Capital Redemption Reserve	3,00	
	Revenue Reserve	29,00	
	Profit and Loss A/c (35,00 – 8,00)	27,00	69,00

- (b) Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriters

(Number of shares)

	A	B	C	D	Total
Gross Liability	30,000	30,000	20,000	20,000	1,00,000
Less: Marked applications (excluding firm underwriting)	(19,000)	(10,000)	(21,000)	(8,000)	(58,000)
Balance	11,000	20,000	(1,000)	12,000	42,000
Less: Surplus of C allocated to A, B and D in the ratio of 3:3:2	(375)	(375)	1,000	(250)	-
Balance	10,625	19,625	-	11,750	42,000
Less: Unmarked applications including firm underwriting	(5,700)	(5,700)	(3,800)	(3,800)	(19,000)
Net Liability	4,925	13,925	(3,800)	7,950	23,000
Less: Surplus of C allocated to A, B and D in the ratio of 3:3:2	(1,425)	(1,425)	3,800	(950)	-
	3,500	12,500	-	7,000	23,000
Add: Firm underwriting	3,000	2,000	1,000	1,000	7,000
Total Liability	6,500	14,500	1,000	8,000	30,000

Calculation of underwriting commission:

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

Underwriting commission payable to A and B = 5% of (₹ 15 × 30,000 shares)
= ₹ 22,500.

Underwriting commission payable to C and D = 5% of (₹ 15 × 20,000 shares)
= ₹ 15,000.

Working Note:

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

3. In the Books of M Ltd.

	Particulars	Dr.	Cr.
01.04.2012		Amount	Amount
		₹	₹
	Equity share capital A/c To Equity share capital A/c (Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)	Dr. 30,00,000	30,00,000
	Equity share capital A/c To Capital reduction A/c (Being reduction of capital by 50%)	Dr. 15,00,000	15,00,000
	Capital reduction A/c To Bank A/c (Being payment in cash of 10% of arrear of preference dividend)	Dr. 27,000	27,000
	Bank A/c To Own debentures A/c To Capital reduction A/c (Being profit on sale of own debentures transferred to capital reduction A/c)	Dr. 1,56,800	1,53,600 3,200
	12% Debentures A/c To Own debentures A/c To Capital reduction A/c (Being profit on cancellation of own debentures transferred to capital reduction A/c)	Dr. 2,40,000	2,30,400 9,600
	12% Debentures A/c Capital reduction A/c To Machinery A/c (Being machinery taken up by debentureholders for ₹ 5,60,000)	Dr. 5,60,000 Dr. 40,000	6,00,000
	Creditors A/c Capital reduction A/c To Debtors A/c To Stock A/c (Being assets and liabilities revalued)	Dr. 1,30,000 Dr. 58,000	1,22,000 66,000
	Capital reduction A/c To Goodwill A/c To Discount on debentures A/c To Profit and Loss A/c (Being the balance of capital reduction transferred to capital reserve account)	Dr. 8,66,000	40,000 4,000 8,22,000

02.04.2012	Capital reduction A/c To Bank A/c (Being penalty paid for avoidance of capital commitments)	Dr. 30,000	30,000
	Capital reduction A/c To Capital reserve A/c (Being penalty paid for avoidance of capital commitments)	Dr. 4,91,800	4,91,800
	Business Purchase A/c To Liquidators of N Ltd. (Being the purchase consideration payable to N Ltd.)	Dr. 26,40,000	26,40,000
	Fixed Assets A/c	Dr. 15,20,000	
	Stock A/c	Dr. 13,60,000	
	Debtors A/c	Dr. 8,80,000	
	Cash at Bank A/c	Dr. 2,60,000	
	To Sundry Creditors A/c		4,50,000
	To 12% Debentures A/c of N Ltd.		4,00,000
	To Profit and Loss A/c		3,00,000
	To General reserve A/c ₹ (3,40,000+1,60,000*)		5,00,000
	To Business purchase A/c (Being the take over of all assets and liabilities of N Ltd. by M Ltd.)		26,40,000
	Liquidators of N Ltd. A/c To Equity Share Capital To 9% Preference share capital (Being the purchase consideration discharged)	Dr. 26,40,000	20,00,000 6,40,000
	12% Debentures of N Ltd. A/c To 12% Debentures A/c (Being M Ltd. issued their 12% Debentures in against of every Debentures of N Ltd.)	Dr. 4,00,000	4,00,000

Balance Sheet of M Ltd. as at 2.4.2012

Particulars	Note No	Amount(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	51,40,000
(b) Reserves and Surplus	2	13,81,800

* ₹ 1,60,000 is the balancing figure adjusted to general reserve A/c as per AS 14 "Accounting for Amalgamation".

(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		8,00,000
(3) Current Liabilities		
(a) Trade payables		11,50,000
	Total	84,71,800
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		39,20,000
(2) Current assets		
(a) Inventories		20,80,000
(b) Trade receivables		20,60,000
(c) Cash and cash equivalents		4,11,800
	Total	84,71,800

Notes to Accounts

			₹
1	Share Capital		
	Equity Share Capital		35,00,000
	9% Preference share capital		16,40,000
			51,40,000
2	Reserves and Surplus		
	Profit and Loss A/c	30,000	
	General Reserve	8,60,000	
	Capital Reserve	4,91,800	13,81,800

Working Notes:

1. Purchase Consideration

$$\text{Equity share capital } 20,000 \times \frac{50}{5} \times ₹ 10 = 20,00,000$$

$$9\% \text{ Preference share capital } 8,000 \times \frac{4}{5} \times 100 = \underline{6,40,000}$$

$$₹ \underline{26,40,000}$$

2. General Reserve

	₹
Share Capital of N Ltd. (Equity + Preference)	28,00,000
Less: Share Capital issued by M Ltd.	<u>26,40,000</u>
General reserve (resulted due to absorption)	1,60,000
Add: General reserve of N Ltd.	3,40,000
General reserve of M Ltd.	<u>3,60,000</u>
	<u>8,60,000</u>

4. Journal Entries in the Books of Strong Ltd.

		Dr.	Cr.
		₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c Dr. 50,00,000 To Equity Share Capital (₹ 5 each) A/c 25,00,000 To Reconstruction A/c 25,00,000 (Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)		
(ii)	9% Preference Share Capital (₹100 each) A/c Dr. 20,00,000 To 10% Preference Share Capital (₹50 each) A/c 10,00,000 To Reconstruction A/c 10,00,000 (Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)		
(iii)	10% First Debentures A/c Dr. 4,00,000 10% Second Debentures A/c Dr. 6,00,000 Trade Creditors A/c Dr. 1,00,000 Interest on Debentures Outstanding A/c Dr. 1,00,000 Bank A/c Dr. 1,00,000 To 12% New Debentures A/c 7,00,000		

	To Reconstruction A/c (Being ₹ 6,00,000 due to 'HE' (including creditors) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)			6,00,000
(iv)	10% First Debentures A/c	Dr.	2,00,000	
	10% Second Debentures A/c	Dr.	4,00,000	
	Trade Creditors A/c	Dr.	50,000	
	Interest on Debentures Outstanding A/c	Dr.	60,000	
	To 12% New Debentures A/c			4,10,000
	To Reconstruction A/c (Being ₹ 3,00,000 due to 'SHE' (including creditors) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)			3,00,000
(v)	Trade Creditors A/c	Dr.	1,75,000	
	To Reconstruction A/c (Being remaining creditors sacrificed 50% of their claim.)			1,75,000
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 5) A/c			60,000
	To Reconstruction A/c (Being Directors' loan claim settled by issuing 12,000 equity shares of ₹ 5 each as per scheme of reconstruction.)			40,000
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c (Being payment made for cancellation of capital commitments.)			15,000
(viii)	Bank A/c	Dr.	1,10,000	
	To Reconstruction A/c (Being refund of fees by directors credited to reconstruction A/c.)			1,10,000
(ix)	Reconstruction A/c	Dr.	10,000	

	To Bank A/c (Being payment of reconstruction expenses.)			10,000
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			80,000
	To Reconstruction A/c			20,000
	(Being payment of tax for 80% of liability in full settlement.)			
(xi)	Reconstruction A/c	Dr.	47,20,000	
	To Goodwill A/c			10,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			15,00,000
	To Discount on issue of Debentures A/c			1,00,000
	To Land and Building A/c			2,00,000
	To Plant and Machinery A/c			6,00,000
	To Furniture & Fixture A/c			1,00,000
	To Computers A/c			1,20,000
	To Trade Investment A/c			1,00,000
	To Stock A/c			3,00,000
	To Debtors A/c			2,00,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction.)			

Working Notes:

- (1) Outstanding interest on debentures have been allocated between HE and SHE as follows:

		₹
'HE' 's Share		
10% First Debentures	4,00,000	
10% Second Debentures	<u>6,00,000</u>	<u>10,00,000</u>
10% on ₹10,00,000 i.e. (A)		<u>1,00,000</u>
'SHE' 's Share		
10% First Debentures	2,00,000	

10% Second Debentures	4,00,000	6,00,000
10% on ₹ 6,00,000 i.e. (B)		60,000
Total (A + B)		1,60,000

(2) Bank Account

		₹			₹
To	'HE' (reconstruction)	1,00,000	By	Balance b/d	1,00,000
To	Reconstruction A/c (paid by directors)	1,10,000	By	Reconstruction A/c (capital commitment penalty paid)	15,000
			By	Reconstruction A/c (reconstruction expenses paid)	10,000
			By	Provision for tax A/c (tax paid)	80,000
			By	Balance c/d	5,000
		<u>2,10,000</u>			<u>2,10,000</u>

5.

Receiver's Receipts & Payments Account

Receipts	₹	Payments	₹
Sundry Assets realized	2,00,000	Cost of the Receiver	2,000
Surplus received from Mortgage:		Preferential Payments :	
Sales proceeds of Land and Building 1,50,000		Creditors for – Taxes raised within 12 months	26,000
Less : Applied towards discharge of Mortgage Loan <u>80,000</u>	70,000	Debenture holders :	
		Principal 1,50,000	
		Interest for six months <u>9,750</u>	1,59,750
		Surplus transferred to the Liquidator	82,250
	<u>2,70,000</u>		<u>2,70,000</u>

Liquidator's Final Statement of Account

Receipts	₹	Payments	₹
Surplus received from Receiver	82,250	Cost of Liquidation	2,800

Assets realized	1,00,000	Remuneration to Liquidator	3,000
Calls on Contributories :		Unsecured Creditors :	
From 5,000 partly paid shares at the rate of ₹ 2.17 per share	10,850	Trade	32,000
		Directors of Bank	
		Overdraft paid	<u>30,000</u>
			62,000
		Preference Shareholders :	
		Share Capital	1,00,000
		Arrears of Div.	<u>22,000</u>
			1,22,000
		Equity Shareholders :	
		Return of money to holders of 10,000 fully paid shares at 33 paise each	
			3,300
	<u>1,93,100</u>		<u>1,93,100</u>

Working Notes :

₹

Calls from partly paid shareholders :

Deficit before call from Equity Shares (1,82,250 – 1,89,800) (7550)

Notional call on 5,000 shares @ ₹ 2.50 each 12,500

Surplus after Notional call (a) 4,950

No. of Shares deemed fully paid (b) 15,000

Refund on fully paid shares 4,950 / 15,000 = 33 paise

Call on partly paid shares (2.50 – 0.33) = 2.17

6.

Sona Bank Ltd.**Profit and Loss Account for the year ended 31st March, 2012**

	Schedule No.	(₹ in thousands)
Income: Interest and Discount (8,860 – 30)	13	8,830
Other income	14	<u>250</u>
		<u>9,080</u>
Expenditure: Interest expenses	15	2,720
Operating expenses	16	2,662
Provision and Contingencies		<u>2,004</u>
		<u>7,386</u>
Net Profit/Loss for the year		<u>1,694</u>

Assets	Value	% of provision	Provision
Standard Assets	5,000	0.40	20.00
Sub-standard Assets *	1,120	15	168.00
Doubtful Assets			
100% unsecured	200	100	200.00
Secured:			
Less than 1 year	50	25	12.50
More than 1 year but less than 3 years	300	40	120.00
More than 3 years	300	100	300.00
Loss Assets	200	100	<u>200.00</u>
Total Provision			<u>1,020.50</u>

7.

Form B – RA (Prescribed by IRDA)**Revenue Account for the year ended 31st March, 2012****Marine Insurance Business**

	Schedule	Current Year	Previous Year
		₹	₹
Premiums earned (net)	1	25,21,750	
Interest, Dividends and Rent – Gross		1,15,500	
Double Income Tax refund		12,000	
Profit on sale of motor car		<u>5,000</u>	
Total (A)		<u>26,54,250</u>	
Claims incurred (net)	2	17,81,000	
Commission	3	1,47,000	
Operating expenses related to Insurance business	4	3,41,000	
Bad debts		5,000	
Indian and Foreign taxes		<u>2,40,000</u>	
Total (B)		<u>25,14,000</u>	
Profit from Marine Insurance business (A-B)		1,40,250	

* Sub-standards assets are assumed to be fully secured.

Schedules forming part of Revenue Account

Schedule –1

<i>Premiums earned (net)</i>	<i>Current Year</i>	<i>Previous Year</i>
	₹	₹
Premiums from direct business written	28,27,000	
Less: Premium on reinsurance ceded	<u>2,62,000</u>	
Total Premium earned (net)	25,65,000	
Change in provision for unexpired risk (₹ 26,93,250 – ₹ 26,50,000)	<u>(43,250)</u>	
	<u>25,21,750</u>	
Schedule – 2		
Claims incurred (net)	<u>17,81,000</u>	
Schedule – 3		
Commission paid		
Direct	1,50,000	
Add: Re-insurance accepted	11,000	
Less: reinsurance ceded	<u>14,000</u>	
	<u>1,47,000</u>	
Schedule – 4		
Operating expenses related to insurance business		
Employees' remuneration and welfare benefits	2,60,000	
Rent, Rates and Taxes	18,000	
Printing and Stationery	23,000	
Legal and Professional charges	<u>40,000</u>	
	<u>3,41,000</u>	

Working Notes:

	<i>Direct</i>	<i>Re-insurance</i>
	₹	₹
1. Total Premium Income		
Received	24,00,000	3,60,000
Add: Receivable on 31 st March, 2012	<u>1,80,000</u>	<u>28,000</u>
	25,80,000	3,88,000

Less: Receivable on 1 st April, 2011	<u>1,20,000</u>	<u>21,000</u>
	<u>24,60,000</u>	<u>3,67,000</u>

Total premium income 24,60,000 + 3,67,000 = 28,27,000

	₹
2. Premium Paid	
Paid	2,40,000
Add: Payable on 31st March, 2012	<u>42,000</u>
	2,82,000
Less: Payable on 1st April, 2011	<u>20,000</u>
	<u>2,62,000</u>
3. Claims Paid	
Direct Business	16,50,000
Re-insurance	1,25,000
Legal Expenses	<u>20,000</u>
	17,95,000
Less: Re-insurance claims received	<u>1,00,000</u>
	<u>16,95,000</u>
4. Claims outstanding as on 31st March, 2012	
Direct	1,75,000
Re-insurance	<u>22,000</u>
	1,97,000
Less: Recoverable from Re-insurers on 31st March, 2012	<u>12,000</u>
	<u>1,85,000</u>
5. Claims outstanding as on 1st April, 2011	
Direct	95,000
Re-insurance	<u>13,000</u>
	1,08,000
Less: Recoverable from Re-insurers on 1st April, 2011	<u>9,000</u>
	<u>99,000</u>
6. Expenses of Management	
Salaries	2,60,000
Rent, Rates and taxes	18,000
Printing and Stationery	23,000
Legal Expenses	<u>40,000</u>
	<u>3,41,000</u>

8. Balance Sheet of Roshini Electric Supply Ltd. for the year ended March 31, 2012

			Particulars	Note No	₹ ('000)
1			Equity and Liabilities		
			Shareholders' funds		
	a		Share capital	1	81,25
	b		Reserves and Surplus	2	2,800
2			Non-current liabilities		
	a		Long-term borrowings	3	5,000
3			Current liabilities		-
	a		Trade Payables		815.5
	b		Other current liabilities	4	<u>15,12.5</u>
			Total		182,53
			Assets		-
1			Non-current assets		-
	a		Fixed assets		-
		i	Tangible assets	5	12,395
		ii	Intangible assets		313
			Other non-current assets	6	15,01.25
2			Current assets		-
	a		Inventories		15,06.25
	b		Trade receivables		780.75
	c		Cash and cash equivalents		<u>406.75</u>
			Total		<u>182,53</u>

Notes to financial statements

			₹ ('000)
1	Share Capital		62,50
	Issued & subscribed		
	Equity share capital		
	5,00,000 Equity shares of ₹ 10 each	5,000	-
	Add: 1,25,000 Equity shares of ₹ 10 each issued during the year (A)	<u>12,50</u>	62,50
	Preference share capital		
	31,250 14% Preference shares of ₹ 100 each	31,25	

	Less: 12,500 Preference shares of ₹ 100 each redeemed during the year (B)	(12,50)	<u>18,75</u>
	Total (A+B)	-	<u>81,25</u>
2	Reserves and Surplus		
	Capital reserve		627.5
	Contingency Reserve		15,03.75
	Balance of net return A/c		<u>668.75</u>
	Total		<u>2,800</u>
3	Long-term borrowings		
	Secured		
	15% Debentures		30,87.5
	16% Term Loan (considered secured)		<u>19,12.5</u>
	Total		<u>5,000</u>
4	Other Current liabilities		-
	Proposed dividend		<u>15,12.5</u>
	Total		<u>15,12.5</u>
5	Tangible assets		
	Land	13,00	
	Addition during the year	<u>256.25</u>	15,56.25
	Building	37,56.75	
	Addition during the year	<u>635</u>	4,391.75
	Plant & Machinery		
	Steam Power Plant	71,32.25	
	Transformers	20,55	
	Mains	565.5	
	Meters	393.75	
	Public Lamps	<u>380</u>	105,26.5
	General Equipments		
	Electrical Instruments	191.25	
	Office Furniture	<u>306.25</u>	<u>497.5</u>
			<u>169,72</u>
	Less: Depreciation fund		<u>(32,27)</u>
	Total		<u>137,45</u>
6	Other non-current assets		
	Contingency Reserve Investment (assumed as non-current item)		<u>15,01.25</u>

9. (a) Calculation of average due date (Base date: 8th April)

Due Date	Amount	No. of days from base date	Product
	₹		₹
8th April	300	0	0
18th May	200	40	8,000
13th June	275	66	18,150
8th July	<u>400</u>	91	<u>36,400</u>
	<u>1,175</u>	91	<u>62,550</u>

$$\text{Average due date} = \text{Base date} + \frac{\text{Total Product}}{\text{Total Amount}}$$

$$= 8\text{th April} + \frac{62,550}{1,175} = 8\text{th April} + 53 \text{ days} = 31\text{st May}$$

(b) M in Account Current with L as at 30.04.2012

Date Due Date	Particulars	Amount	Days	Product	Date Due Date	Particulars	Amount	Days	Product
7.4.2012 to 10.6.2012	To Bills Payable A/c	5,000	-41	-2,05,000	1.4.2012 to 1.4.2012	By Balance b/d	10,000	30	3,00,000
10.4.2012 to 10.5.2012	To Sales A/c	15,000	-10	-1,50,000	12.4.2012 to 15.5.2012	By Bank A/c	7,500	-15	-1,12,500
20.4.2012 to 15.5.2012	To Purchase Return A/c	1,000	-15	-15,000	15.4.2012 to 15.5.2012	By Purchases A/c	6,000	-15	-90,000
20.4.2012 to 20.4.2012	To Bills Receivable A/c	5,000	10	50,000	30.4.2012	By Interest A/c*	205.90		-
30.4.2012 to 30.4.2012	To Difference of Product	-		<u>4,17,500</u>	30.4.2012	By Balance c/d	<u>2,294.10</u>		-
		<u>26,000</u>		<u>97,500</u>			<u>26,000</u>		<u>97,500</u>

$$*4,17,500 \times 18/100 \times 1/365 = ₹ 205.90$$

Note that no entry is required for transaction of April 10, 2012.

10

Total Debtors Accounts

2012		₹	2012		₹
Apr. 1	To Balance b/d	41,000	Apr. 1	By Balance b/d (Advance)	2,000
" 30	To Credit Sales	44,100	" 30	By Cash	39,300
" 30	To Bills Receivable A/c	1,000	" 30	By Discount Account	950
" 30	To Cash (Noting Charges)	10	" 30	By Bad Debts Account	1,650
" 30	To Balance c/d (R)	1,800			

			" 30	(2100-450) By Returns Inwards A/c (Om)	500
			" 30	By Bills Receivable A/c	1,000
			" 30	By Total Creditor A/c (Transfer) (Sohan)	1,800
			" 30	By Balance c/d	40,710
		87,910			87,910
2012			2012		
May 1	To Balance b/d	40,710	May 1	To Balance b/d	1,800

Working Notes:

	₹	₹
(i) Cash Received:		
From Ram		450
From R (Advance)		<u>1,800</u>
		2,250
Ex sales before April 1 (700)	27,300	
Ex sales during April	<u>9,750</u>	<u>37,050</u>
		<u>39,300</u>

(ii) Discount: ₹ 37,050 × 2½ / 97½ = ₹ 950

(iii) The creation of the Provision for Doubtful Debts will not affect the Total Debtors Account.

**11. Income and Expenditure Account of Strong Club
for the year ended 30th September, 2012**

Expenditure	Amount	Income	Amount
	₹		₹
To Honoraria to secretary	9,600	By Subscriptions (W.N.3)	20,980
To Misc. expenses	3,060	By Sale of old newspapers	4,800
To Rates and taxes	2,520	By Entertainment fees	8,540
To Groundman's wages	1,680	By Bank interest	460
To Printing and stationary	940	By Bar receipts	14,900
To Telephone expenses	4,780	By Profit on sale of car (W.N.5)	2,200
To Bar expenses			
Opening bar stock	1,420		

Add: Purchases (W.N.2)	<u>11,220</u>			
	12,640			
Less: Closing bar stock	<u>1,740</u>	10,900		
To Repairs		640		
To Depreciation				
Club premises (W.N. 4)	1,020			
Car (W.N. 6)	<u>4,680</u>	5,700		
To Excess of income over expenditure transferred to capital fund		<u>12,060</u>		
		<u>51,880</u>		<u>51,880</u>

**Balance Sheet of Strong Club
as on 30th September, 2012**

Liabilities		Amount	Assets	Amount
	₹	₹		₹
Capital fund (W.N. 1)	43,600		Club Premises	19,380
Add: Excess of income over expenditure	<u>12,060</u>	55,660	Car	26,520
Outstanding liabilities for bar purchases		860	Bar stock	1,740
			Outstanding subscription	1,960
			Cash and bank	<u>6,920</u>
		<u>56,520</u>		<u>56,520</u>

Working Notes:

**1. Balance Sheet of Strong Club
as on 1st October, 2011**

Liabilities	Amount	Assets	Amount
	₹		₹
Amount due for bar purchases	1,180	Club premises	58,000
Capital fund on 1.10.2011	43,600	Less: Depreciation	<u>(37,600)</u>
(balancing figure)		Car	24,380
		Less: Depreciation	<u>(20,580)</u>
		Bar stock	1,420

		Outstanding subscription	2,400
		Cash at bank	<u>16,760</u>
	<u>44,780</u>		<u>44,780</u>

2. Calculation of bar purchases for the year:

	₹
Bar payments as per receipts and payments account	11,540
Add: Amount due on 30.9.2012	<u>860</u>
	12,400
Less: Amount due on 1.10.2011	<u>(1,180)</u>
	<u>11,220</u>

3. Calculation of subscriptions accrued during the year:

	₹
Subscriptions received as per receipts and payments account	21,420
Add: Outstanding on 30.9.2012	<u>1,960</u>
	23,380
Less: Outstanding on 1.10.2011	<u>(2,400)</u>
	<u>20,980</u>

4. Depreciation on club premises and written down value on 30th September, 2012:

	₹
Written down value on 1.10.2011 (58,000-37,600)	20,400
Less: Depreciation for the year 2011-2012 @ 5% p.a.	<u>(1,020)</u>
	<u>19,380</u>

5. Calculation of profit on sale of car:

	₹
Sale proceeds of old car	6,000
Less: Written down value of old car:	
Cost of car on 1.10.2011	24,380
Less: Depreciation upto 1.10.2011	<u>(20,580)</u>
	<u>(3,800)</u>
	<u>2,200</u>

6. Depreciation on car and written down values on 30th September, 2012:

	₹
Cost of new car purchased (25,200 + 6,000)	31,200
Less: Depreciation for the year @ 15% p.a.	<u>(4,680)</u>
Written down value on 30.9.2012	<u>26,520</u>

Note: The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing.

**12. Trading and Profit and Loss Account of Shri Ashok
for the year ended 31st December, 2012**

		₹		₹
To Opening Stock		8,000	By Sales	73,050
To Purchases	45,600		By Closing stock	7,000
Less : For advertising	<u>(900)</u>	44,700		
To Freight inwards		3,000		
To Gross profit c/d		<u>24,350</u>		
		<u>80,050</u>		<u>80,050</u>
To Sundry expenses		14,200	By Gross profit b/d	24,350
To Advertisement		900	By Interest on investment	2
To Discount allowed –			$\frac{₹100 \times 4}{100} = \frac{₹400}{200}$	
Debtors	1,500		By Discount received	800
Bills Receivable	<u>125</u>	1,625	By Miscellaneous income	500
To Depreciation on furniture		650		
To Provision for doubtful debts		486		
To Net Profit		<u>7,791</u>		
		<u>25,652</u>		<u>25,652</u>

Balance Sheet as on 31st December, 2012

<i>Liabilities</i>		<i>Amount</i> ₹	<i>Assets</i>		<i>Amount</i> ₹
Capital as on 1st January, 2012	18,800		Furniture	6,000	
Less : Drawings	(7,904)		Additions during the year	1,000	
	10,896			7,000	
Add : Net Profit	7,791	18,687	Less : Depreciation	(650)	6,350
Sundry creditors		15,000	Investment		96
Outstanding expenses		1,800	Interest accrued		2
			Closing Stock		7,000
			Sundry debtors	19,450	
			Less : Provision for doubtful debts	(486)	18,964
			Bills receivable		1,750
			Cash in hand and at bank		625
			Prepaid expenses		<u>700</u>
		<u>35,487</u>			<u>35,487</u>

Working Notes :**(1) Capital on 1st January, 2012****Balance Sheet as on 1st January, 2012**

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

(2) Purchases made during the year

Creditors Account

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

(3) Sales made during the year

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

(4) Debtors on 31.12.2012**Debtors Account**

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

(5) Additional drawings by Shri Ashok

Cash and Bank Account

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

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

	₹		₹
To Prepaid expenses A/c (on 1.1.2012)	600	By Outstanding expenses A/c (on 1.1.2012)	2,000
To Bank A/c	14,500	By Profit and Loss A/c (Balancing figure)	14,200
To Outstanding expenses A/c (on 31.12.2012)	1,800	By Prepaid expenses A/c (on 31.12.2012)	<u>700</u>
	<u>16,900</u>		<u>16,900</u>

(7) Bills Receivable on 31.12.2012**Bills Receivable Account**

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

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

13. (a)

Accent Ltd.**Hire Purchase Trading Account**

	₹		₹
To Opening Balances: Hire purchase stock	2,10,000	By Opening hire purchase stock reserve	60,000
Instalments due	14,000	By Bank (Instalments received)	8,12,000
To Goods sold on hire purchase	9,80,000	By Goods repossessed	7,800
To Closing hire purchase stock reserve (W.N.3)	1,08,000	By Goods sold on hire purchase (Loading) (W.N.2)	2,80,000
To Profit and loss Account (Transfer of profit)	2,34,200	By Closing Balances: Hire purchase stock	3,78,000
		Instalments due (W.N.4)	8,400
	<u>15,46,200</u>		<u>15,46,200</u>

Working Notes:

	₹
(i) Opening hire purchase stock reserve = ₹ $2,10,000 \times \frac{40}{140}$	60,000
(ii) Loading on goods sold = ₹ $9,80,000 \times \frac{40}{140}$	2,80,000
(iii) Closing hire purchase stock reserve = ₹ $3,78,000 \times \frac{40}{140}$	1,08,000
(iv) Closing instalments due: Opening hire purchase stock	2,10,000
Opening instalments due	14,000
Goods sent on hire purchase	<u>9,80,000</u>
	12,04,000
Less: Instalments received	8,12,000
Unpaid instalments on repossessed goods	5,600
Closing hire purchase stock	<u>3,78,000</u>
	<u>(11,95,600)</u>
	<u>8,400</u>

(b)

In the books of Kumar**10% Non-Convertible Debentures (NCD) Account**

	Particulars	Face Value ₹	Interest ₹	Cost ₹		Particulars	Face Value ₹	Interest ₹	Cost ₹
April 1	To Balance b/d	2,00,000	5,000	1,80,000	June 30	By Bank		25,000	
June 15	To Bank	3,00,000	13,750	2,88,000	Sept. 15	By Bank	3,00,000	6,250	3,00,000
Sept. 15	To P&L A/c			24,000	Dec. 31	By Bank		20,000	
Dec. 15	To Bank	2,00,000	9,167	1,88,333	Feb. 15	By Bank	2,00,000	2,500	2,01,500

Feb. 15	To P&L A/c			9,500	Mar.31	By balance	2,00,000	5,000	1,88,333
Mar.31	To P&L A/c (Bal. fig.)		30,833			c/d			
		7,00,000	58,750	6,89,833			7,00,000	58,750	6,89,833

Working Notes**(i) Profit/Loss on sale of NCD**

	₹
Sold on 15.09.2011	
Selling price (3,000 x 100)	3,00,000
Less: Cost of purchases	
2000 x 90 (opening)	(1,80,000)
1000 x 96 (purchases)	(96,000)
Profit	<u>24,000</u>

Sold on 15.02.2012

Selling price (2,000 x 102)	2,04,000
Less: Interest included	(2,500)
	2,01,500
Less: Cost of purchases (2000 x 96)	(1,92,000)
Profit	<u>9,500</u>

- (ii) As the disinvestment is done on FIFO basis, NCDs purchased on 15.12.2011 remained in stock on 31.03.2012 at a cost of ₹ 1,88,333

(iii) Interest calculation on various dates:

₹

- (a) On 1.4.11:

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

- (b) On 15.6.11:

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

- (c) On 30.6.11:

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

(d) On 15.9.11:

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

(e) On 15.12.11

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

(f) On 31.12.11:

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

(g) On 15.2.2012:

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

(h) On 31.3.2012:

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

14 (a)

In the books of head office

Kanpur Branch Stock Account

	₹		₹
1.4.2011 To Balance b/d	24,000	31.3.12 By Bank A/c (Cash Sales)	1,80,000
31.3.2012 To Goods sent to Branch A/c	4,80,000	By Branch Debtors (Credit Sales)	2,80,000
To Branch Debtors	6,000	By Stock shortage: Branch P&L A/c Branch Adjustment A/c (Loading) 1,500* <u>500</u>	2,000
		By Balance c/d	<u>48,000</u>
	<u>5,10,000</u>		<u>5,10,000</u>

Kanpur Branch Debtors Account

		₹			₹
1.4.2011	To Balance b/d	30,000	31.3.2012	By Bank A/c (Collection)	2,70,000
31.3.2012	To Bank A/c			By Branch Stock A/c	6,000
31.3.2012	(dishonour of cheques)	5,000		By Bad debts	1,500
	To Branch Stock A/c	2,80,000*		By Discount allowed	1,000
		<u>3,15,000</u>		By Balance c/d	<u>36,500</u>
					<u>3,15,000</u>

Kanpur Branch Adjustment Account

	₹		₹
To Branch Stock A/c (loading of loss)	500*	By Stock Reserve A/c	6,000
To Stock Reserve	12,000	By Goods sent to Branch A/c	1,20,000
To Gross Profit c/d	<u>1,13,500</u>		<u>1,26,000</u>
	<u>1,26,000</u>		<u>1,26,000</u>
To Branch Stock A/c (Cost of loss)	1,500	By Gross Profit b/d	1,13,500
To Branch Expenses	56,000		
To Net Profit (Transferred to General P & L A/c)	<u>56,000</u>		<u>1,13,500</u>
	<u>1,13,500</u>		<u>1,13,500</u>

*Balancing figure.

Working Notes:

1. Credit Sales have not been given in the problem. So, the balancing figure of Branch Debtors Account is taken as credit sales
2. Loading is $33\frac{1}{3}\%$ of Cost; i.e. 25% of invoice value
Loading on opening stock = $24,000 \times 25\% = 6,000$
3. Loading on goods sent = $4,80,000 \times 25\% = ₹1,20,000$
4. Loading on Closing Stock = $₹48,000 \times 25\% = ₹12,000$
5. Total Branch Expenses = Cash expenses + Bad debt + Discount allowed
= $₹53,500 + ₹1,500 + ₹1,000 = ₹56,000$

6. Gross Profit

Total sales (at invoice price)- Goods returned by customers (at invoice price) x

$$\frac{33.33}{100 + 33.33}$$

$$\{(\text{₹ } 1,80,000 + \text{₹ } 2,80,000) - \text{₹ } 6,000\} \times \frac{33.33}{133.33} = \text{₹ } 1,13,500$$

(b) Computation of the amount of claim for the loss of profit

	₹
(i) Ascertainment of turnover:	
Turnover from 15 th October, 2010 to 31 st March, 2011	2,40,000
Add: 20% expected increase	<u>48,000</u>
	2,88,000
Less: Actual turnover from 15 th October, 2011 to 31 st March, 2012	<u>(1,20,000)</u>
Reduction in turnover due to fire	<u>1,68,000</u>
Gross profit on reduction in turnover @ 35% (see working note)	58,800

(ii) Claim amount:

Amount of claim without application of average clause ₹ 58,800

Application of average clause

$$= \frac{\text{Amount of Policy}}{\text{G.P. on Turnover}} \times \text{Amount of claim}$$

$$= \frac{1,50,000}{2,01,600} \times 58,800 = \text{₹ } 43,750$$

Therefore, amount of claim = ₹ 43,750

Working Notes:**(i)**

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

$$\text{Rate of Gross Profit} = \frac{1,57,500}{4,50,000} \times 100 = 35\%$$

(ii)

	₹
Adjusted Annual Turnover:	
Turnover from 15 th October, 2010 to 14 th October, 2011	4,80,000
Add: 20% expected increase	<u>96,000</u>
	<u>5,76,000</u>
Gross Profit @ 35% on incremental turnover	2,01,600

15. (a) Computation of entitlement of legal heirs of O)**(1) Profits for the half year ended 31st March, 2012**

	₹
Profits for the year ended 31 st March, 2012 (after depreciation)	48,000
Add : Depreciation	<u>10,000</u>
Profits before depreciation	<u>58,000</u>
Profits for the first half (assumed : evenly spread)	29,000
Less : Depreciation for the first half	<u>(6,000)</u>
Profits for the first half year (after depreciation)	<u>23,000</u>
Profits for the second half (i.e., 1 st October, 2011 to 31 st March, 2012)	29,000
Less : Depreciation for the second half	<u>(4,000)</u>
Profits for the second half year (after depreciation)	<u>25,000</u>

(2) Capital Accounts of Partners as on 30th September, 2011

Dr.				Cr.			
	M ₹	N ₹	O ₹		M ₹	N ₹	O ₹
To Fixed Assets				By Balance b/d	48,000	64,000	48,000
(loss on revaluation)	6,000	8,000	6,000	By Reserve	6,000	8,000	6,000
To Drawings	9,000	12,000	20,000	By Goodwill	18,000	24,000	18,000
To O Executor's A/c			52,000	By P & L Appo-			
To Balance c/d	57,000	76,000	—	priation A/c			
				(Interest on			
				₹ 48,000 @ 25%			
				for 6 months)	—	—	6,000
	<u>72,000</u>	<u>96,000</u>	<u>78,000</u>		<u>72,000</u>	<u>96,000</u>	<u>78,000</u>

(3) Application of Section 37 of the Partnership Act

Legal heirs of O have not been paid anything other than the share in joint life policy. The amount due to the deceased partner carries interest at the mutually agreed upon rate. In the absence of any agreement, the representatives of the deceased partner can receive at their option interest at the rate of 6% per annum or the share of profit earned for the amount due to the deceased partner.

Thus, the representatives of O can opt for

Either,

- (i) Interest on ₹ 52,000 for 6 months @ 6% p.a. = ₹ 1,560

Or

- (ii) Profit earned out of unsettled capital (in the second half year ended 31st March, 2012)

$$₹ 25,000 \times \frac{52,000}{57,000 + 76,000 + 52,000} = ₹ 7,027 \text{ (approx.)}$$

In the above case, it would be rational to assume that the legal heirs would opt for ₹ 7,027.

(4) Amount due to legal heirs of O

₹

Balance in O's Executor's account	52,000
Amount of profit earned out of unsettled capital [calculated in (3)]	<u>7,027</u>
Amount due	<u>59,027</u>

(b) Current Assets & Non-Current Assets

"An asset shall be classified as current when it satisfies any of the following criteria:

- it is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is expected to be realized within twelve months after the reporting date; or
- it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current."

Current Liabilities & Non-Current Liabilities:

"A liability shall be classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the company's normal operating cycle;

- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.”

Operating Cycle

“An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of twelve months.”

16. 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.
17. (a) Para 17 of AS 1 ‘Disclosure of Accounting Policies’, states that financial statements should disclose all material items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omission or misstatement. From a positive perspective, materiality has to do with the significance of an item or event to warrant attention in the accounting process. From a negative view point, materiality is critical because otherwise a great deal of time might be spent on trivial matters in the accounting process. Individual judgments are required to assess materiality, or to decide what the appropriate minimum quantitative criteria are to be set for given situations. What is material to one organization, may not be material for another organization.

For example, a long term investor is interested in the current value of fixed asset like building, while the banker may not consider it significant for a short-term loan. Similarly a pair of scissors, ball pens, sharpeners, waste-paper baskets could be used for a number of years but still it is treated as an expense and not an asset.

The omission of "paise" in the financial statements is also due to their insignificant effect to the users of the financial statement in making a decision.

- (b) The use of standard cost of elements of cost of production has been suggested by AS-2 as a matter of convenience only. In fact, AS-2 aims to suggest the use of absorption costing based on normal capacity. AS-2 says that standard cost system may be used for convenience if the results approximate the actual cost. If the company can adopt absorption costing for value of inventory, then the standard cost systems need not be adopted.
- (c) As per para 8 of AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for ₹ 3,00,000 suffered heavy loss due to earthquake in the first week of March, 2010 and he became bankrupt in April, 2012 (after the balance sheet date). The loss was also not covered by any insurance policy. Accordingly, full provision for bad debts amounting ₹ 3,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2012.

- (d) The preparation of financial statements involve making estimates which are based on the circumstances existing at the time when the financial statements are prepared. It may be necessary to revise an estimate in a subsequent period if there is a change in the circumstances on which the estimate was based. Revision of an estimate, by its nature, does not bring the adjustment within the definitions of a prior period item or an extraordinary item [para 21 of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies].

In the given case, a limited company created 2.5% provision for doubtful debts for the year 2011-2012. Subsequently in 2012 they revised the estimates based on the changed circumstances and wants to create 8% provision. As per AS-5 (Revised), this change in estimate is neither a prior period item nor an extraordinary item.

However, as per para 27 of AS 5 (Revised), a change in accounting estimate which has material effect in the current period, should be disclosed and quantified. Any change in the accounting estimate which is expected to have a material effect in later periods should also be disclosed.

18. (a) According to the Guidance Note on Accounting for Depreciation in Companies issued by ICAI, it is permissible for a company to adopt more than one method of depreciation simultaneously that is to say that-
1. Company may follow different methods for different types of assets; and

2. Company geographical locations can follow different methods.

Only condition is that same methods should be consistently adopted from year to year.

Change in the method of depreciation is a change in accounting policy. According to AS 6, such a change is permissible only when at least one of the following 3 conditions is satisfied:-

- (i) Such change is required by law.
- (ii) Such change is required by the Accounting Standards
- (iii) Such change will result in more appropriate presentation.

Here, from the facts given it appears that condition (iii) is satisfied i.e. change will lead to more appropriate presentation (since WDV method will better represent the pattern of faster wear & tear instead of SLM).

According to AS 6, change should be retrospective. Any difference arising thereon should be changed/ credited to P&L account in the year of change.

- (b) As per Revised AS-7 incentive payments are additional amounts payable to the contractor if specified performance standards are met. A contract may allow for an incentive payment to the contractor for early completion of the contracts. Incentive payments are included in contracts revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met and the amount of the incentive payment can be measured reliably. In the given problem, the contracts is not even begun and hence the contractor should not recognise any revenue of this account

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

To recognise revenue AS 9 requires that revenue arises from ordinary activities and that it is measurable and there should be no uncertainty. As per para 9.2 of the Standard, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made.

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

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

- (d) (i) Yes, as foreign tour expenses of directors for purchase of Plant and Machinery is for the acquisition of the asset, therefore it should be capitalised.
- (ii) Yes, salary of technical staff for erection of Plant and Machinery is the cost directly attributable for bringing the asset to its working conditions for its intended use. Therefore, it should be capitalised.
- (iii) No, as per para 9 of AS 10 only salary of technical staff can be said to as directly attributable to bring the asset to its working conditions for its intended use. Therefore, salary of non-technical staff cannot be capitalised.
- (iv) No, as per para 9.3 of AS 10, 'administration and other general overhead expenses are usually excluded from the cost of fixed assets because they do not relate to a specific fixed asset.' Hence the same should not be capitalized.
19. (a) According to Para 21 of AS 3 (Revised) 'Cash Flow Statements', an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis. Acquisition and disposal of fixed assets is not prescribed in para 22 and 24 of the standard.
- Hence, the company cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furniture and fixtures.
- (b) As per para 32 of AS 13 'Accounting for Investments', investment classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. As per para 17 of the standard, indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.
- The facts of given case clearly suggest that there is decline in the market share of the company and the investment will not fetch more than ₹20,000. Therefore, the provision of ₹1,80,000 should be made to reduce the carrying amount of long term investment to ₹20,000 in the financial statements for the year ended 31st March, 2012.
- (c) As per AS 12 'Accounting for Government Grants', Government grants sometimes become refundable because certain conditions are not fulfilled. A government grant that becomes refundable is treated as an extraordinary 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 present case, the amount of refund of government grant should be shown in the profit & loss account of the company as an extraordinary item during the year 2011-12.

- (d) According to para 3 of AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use.

As per para 6 of AS 16, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Other borrowing costs should be recognised as an expense in the period in which they are incurred

The treatment of interest by Ozon Construction Ltd. can be shown as:

	Qualifying Assets	Interest to be capitalized (₹)	Interest to be charged to profit & loss A/c (₹)	
Construction of sea-link	Yes	62,50,000		(80,00,000*(25/32)
Purchase of equipments and machineries	No		7,50,000	(80,00,000*(3/32)
Working capital	No		5,00,000	(80,00,000*(2/32)
Purchase of vehicles	No		1,25,000	(80,00,000*(.5/32)
Advance for tools, cranes etc.	No		1,25,000	(80,00,000*(.5/32)
Purchase of technical know-how	No		<u>2,50,000</u>	(80,00,000*(1/32)
Total		<u>62,50,000</u>	<u>17,50,000</u>	

20. (a) As per AS 19 on Leases, unearned finance income is the difference between (a) the gross investment in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

where :

Gross investment in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

$$\begin{aligned} \text{Gross investment} &= \text{Minimum lease payments} + \text{Unguaranteed residual value} \\ &= [\text{Total lease rent} + \text{Guaranteed residual value (GRV)}] + \text{Unguaranteed residual value (URV)} \end{aligned}$$

$$= [(\text{₹ } 1,00,000 \times 5 \text{ years}) + \text{₹ } 20,000] + \text{₹ } 20,000$$

$$= \text{₹ } 5,40,000 \text{ (a)}$$

Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	M.L.P. inclusive of URV ₹	Internal rate of return (Discount factor @ 15%)	Present Value ₹
1	1,00,000	0.8696	86,960
2	1,00,000	0.7561	75,610
3	1,00,000	0.6575	65,750
4	1,00,000	0.5718	57,180
5	1,00,000	0.4972	49,720
	<u>20,000</u> (GRV)	0.4972	<u>9,944</u>
	5,20,000		3,45,164 (i)
	<u>20,000</u> (URV)	0.4972	<u>9,944</u> (ii)
	<u>5,40,000</u>	(i) + (ii)	<u>3,55,108</u> (b)

Unearned Finance Income = (a) – (b)

$$= \text{₹ } 5,40,000 - \text{₹ } 3,55,108 = \text{₹ } 1,84,892$$

- (b) "In calculating diluted earnings per share, effect is given to all dilutive potential equity shares that were outstanding during the period." As per para 26 of AS 20 'Earnings per Share', the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares for the purpose of calculation of diluted earnings per share.

Computation of diluted earnings per share

Adjusted net profit for the current year
 Weighted average number of equity shares

Adjusted net profit for the current year

	₹
Net profit for the current year	85,50,000
Add: Interest expense for the current year	8,00,000
Less: Tax relating to interest expense (30% of ₹ 8,00,000)	<u>2,40,000</u>
Adjusted net profit for the current year	<u>91,10,000</u>

Number of equity shares resulting from conversion of debentures

$$= 1,00,000 \times 10 = 10,00,000 \text{ Equity shares}$$

$$\text{Diluted earnings per share} = \frac{91,10,000}{30,00,000 \text{ shares}} = ₹ 3.037 \text{ per share approx.}$$

- (c) As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to the provisions of AS 26. Therefore, the management cannot defer the expenditure write off to future years and the company is required to expense the entire amount of ₹ 30 lakhs in the Profit and Loss account of the year ended 31st March, 2012.
- (d) In accordance with the provisions of AS 29 'Provisions, Contingent Liabilities and Contingent Assets', if an enterprise has a contract that is onerous, the present obligation under the contract should be recognized and measured as a provision. In the given case, the operating lease contract has become onerous* as the economic benefit of lease contract for next 33 months up to 31.12.2012 will be nil. However, the lessee, Suraj Ltd., has to pay lease rent of ₹ 66,00,000 (i.e. 2,00,000 p.m. for next 33 months). Therefore, provision on account of ₹ 66,00,000 is to be provided in the accounts for the year ending 31.03.10. Hence auditor is right.

* For a contract to qualify as an onerous contract, the unavoidable costs of meeting the obligation under the contract should exceed the economic benefits expected to be received under it.