PAPER – 5 : ADVANCED ACCOUNTING

QUESTIONS

Partnership Accounts- Sale to a Company

1. 'X' and 'Y' carrying on business in partnership sharing Profits and Losses equally, wished to dissolve the firm and sell the business to 'X' Limited Company on 31-3-2009, when the firm's position was as follows:

Liabilities	*Rs.*	*Assets*	*Rs.*
X's Capital	1,50,000	Land and Building	1,00,000
Y's Capital	1,00,000	Furniture	40,000
Sundry Creditors	60,000	Stock	1,00,000
		Debtors	66,000
		Cash	4,000
	3,10,000		3,10,000

The arrangement with X Limited Company was as follows:

(i) Land and Building was purchased at 20% more than the book value.

(ii) Furniture and stock were purchased at book values less 15%.

(iii) The goodwill of the firm was valued at Rs.40,000.

(iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services, the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.

(v) The purchase price was to be discharged by the company in fully paid equity shares of Rs.10 each at a premium of Rs.2 per share.

The company collected all the amounts from debtors. The creditors were paid off less by Rs.1,000 allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation account, the Capital accounts of the partners and the Cash account in the books of partnership firm.

Partnership Accounts – Piecemeal Distribution System

2. A, B and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were Rs. 9,600, Rs. 6,000 and Rs. 8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

	Rs.		*Rs.*
Liability for interest on loans from :		Investments	1,000

Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realised in full in the order in which they are listed above. B is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure.

Redemption of Debentures

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

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

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

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

Accounting for Employees Stock Option Plan

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

   Pass Journal Entries giving suitable narrations.

Underwriting of Shares

5. Alpha Chemicals Limited planned to set up a unit for manufacture of bulk drugs. For the purpose of financing the unit the Board of Directors have issued 15,00,000 equity shares of Rs.10 each. 30% of the issue was reserved for promoters and the balance was offered to the public. Aditya, Diwan and Anoop have come forward to underwrite the public issue in the ratio of 3:1:1 and also agreed for firm undertaking of 30,000; 20,000 and 10,000 shares, respectively. The underwriting commission was fixed at 4%. The amount payable on application was Rs.2.50 per share. The details of subscriptions are:

Marked forms of Aditya	5,50,000 Shares
Marked forms of Diwan	2,00,000 Shares
Marked forms of Anoop	1,50,000 Shares
Unmarked forms	50,000 Shares

(a) You are required to show the allocation of liability among underwriters with workings.

(b) Pass journal entries in the books of Alpha Chemicals Limited:

(i) For underwriters' net liability and the receipt or payment of cash to or from underwriters.

(ii) Determining the liability towards the payment of commission to the underwriters

Buy Back of Securities

6. The Balance Sheet of Gunshot Ltd. as on 31.3.2008 is given :

(Rs. in '000)

Liabilities	*Amount*	*Fixed Assets*	*Amount*
Share Capital :		Fixed Assets	2,700
Equity shares of Rs. 10 each	800	Non-trade Investments	300
Securities Premium	100	Stock	600
General Reserve	780	Sundry Debtors	360
Profit and Loss Account	120	Cash and Bank	160
10% Debenture	2,000		
Creditors	320		
	4,120		4,120

Gunshot Ltd. buy back 16,000 shares of Rs. 20 per share. For this purpose, the Company sold its all non-trade investments for Rs. 3,20,000. Give Journal Entries with full narrations effecting the buy back.

Internal Reconstruction

7. The Balance Sheet of Alteration Ltd. on 31st March, 2009 is as under:

Liabilities	*Rs.*	*Assets*	*Rs.*
Authorised, issued equity share capital		Goodwill	2,00,000
20,000 shares of Rs. 100 each	20,00,000	Plant and machinery	18,00,000
10,000 preference shares (7%) of		Stock	3,00,000
Rs. 100 each	10,00,000	Debtors	7,50,000
Sundry creditors	7,00,000	Preliminary expenses	1,00,000
Bank overdraft	3,00,000	Cash	1,50,000
		Profit and loss account	7,00,000
	40,00,000		40,00,000

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

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

(i) Creditors agreed to forego 50% of the claim.

(ii) Preference shareholders withdrew arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reorganization in case equity shareholders' loss exceed 50% on the application of the scheme.

(iii) Bank agreed to convert overdraft into term loan to the extent required for making current ratio equal to 2 : 1.

(iv) Revalued figure for plant and machinery was accepted as Rs. 15,00,000.

(v) Debtors to the extent of Rs. 4,00,000 were considered good.

(vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganisation.

Show:

(a) Total loss to be borne by the equity and preference shareholders for the reorganization;

(b) Share of loss to the individual classes of shareholders;

(c) New structure of share capital after reorganization;

(d) Working capital of the reorganized Company; and

(e) A proforma balance sheet after reorganization.

Amalgamation of Companies

8. The following is the Balance Sheet of A Ltd. as at 31st March, 2009:

Liabilities	*Rs.*	*Assets*	*Rs.*
8,000 equity shares of Rs.100 each	8,00,000	Building	3,40,000
10% debentures	4,00,000	Machinery	6,40,000
Loan from A	1,60,000	Stock	2,20,000
Creditors	3,20,000	Debtors	2,60,000
General Reserve	80,000	Bank	1,36,000
		Goodwill	1,30,000
		Misc. Expenses	34,000
	17,60,000		17,60,000

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

(1) B Ltd. would take over all Assets, except bank balance at their book values less 10%. Goodwill is to be valued at 4 year's purchase of superprofits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) B Ltd. is to take over creditors at book value.

(3) The purchase consideration is to be paid in cash to the extent of Rs.6,00,000 and the balance in fully paid equity shares of Rs.100 each at Rs.125 per share.

The average profit is Rs.1,24,400. The liquidation expenses amounted to Rs.16,000. B Ltd. sold prior to 31st March, 2009 goods costing Rs.1,20,000 to A Ltd. for Rs.1,60,000. Rs.1,00,000 worth of goods are still in stock of A Ltd. on 31st March, 2009. Creditors of A Ltd. include Rs.40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2009 after the takeover.

Liquidation of Companies

9. (a) Liquidation of YZ Ltd. commenced on 2nd April, 2009. Certain creditors could not receive payments out of the realisation of assets and out of the contributions from A list contributories. The following are the details of certain transfers which took place in 2008 and 2009:

Shareholders	*No. of Shares transferred*	*Date of Ceasing to be a member*	*Creditors remaining unpaid and outstanding on the date of such transfer*
A	2,000	1st March, 2008	Rs. 5,000
P	1,500	1st May, 2008	Rs. 3,300
Q	1,000	1st October, 2008	Rs. 4,300
R	500	1st November, 2008	Rs. 4,600
S	300	1st February, 2009	Rs. 6,000

All the shares were of Rs. 10 each, Rs. 8 per share paid up. Show the amount to be realised from the various persons listed above ignoring expenses and remuneration to liquidator etc.

(b) The position of Priceless Ltd. on its liquidation is as under:

Issued and paid up Capital:

3,000 11% preference shares of Rs. 100 each fully paid.

3,000 Equity shares of Rs. 100 each fully paid.

1,000 Equity shares of Rs. 50 each Rs. 30 per share paid.

Calls in Arrears are Rs. 10,000 and Calls received in Advance Rs. 5,000. Preference Dividends are in arrears for one year. Amount left with the liquidator after discharging all liabilities is Rs. 4,13,000. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital. You are required to prepare the Liquidators final statement of account.

Financial Statements of Insurance Companies

10. Prepare the Fire Insurance Revenue A/c as per IRDA regulations for the year ended 31st March, 2008 from the following details:

	Rs.
Claims paid	4,90,000
Legal expenses regarding claims	10,000
Premiums received	13,00,000
Re-insurance premium paid	1,00,000
Commission	3,00,000
Expenses of management	2,00,000
Provision against unexpired risk on 1st April, 2007	5,50,000
Claims unpaid on 1st April, 2007	50,000
Claims unpaid on 31st March, 2008	80,000

Financial Statements of Banking Companies

11. Following information is furnished to you by Well-to-do Bank Ltd. for the year ended 31st March, 2008:

	(Rs. 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 31.3.2008	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:

(i) Profit and Loss Account of the Bank for the year ended 31st March, 2008.

(ii) Provision in respect of advances.

Financial Statements of Banking Companies

12. The following information is available in the books of X Bank Limited as on 31st March, 2009:

	Rs.
Bills discounted	1,37,05,000
Rebate on Bills discounted (as on 1.4.2008)	2,21,600
Discount received	10,56,650

Details of bills discounted are as follows:

Value of bill (Rs.)	*Due date*	*Rate of Discount*
18,25,000	5.6.2009	12%
50,00,000	12.6.2009	12%
28,20,000	25.6.2009	14%
40,60,000	6.7.2009	16%

Calculate the rebate on bills discounted as on 31.3.2009 and give necessary journal entries.

Financial Statements of Electricity Companies

13. The following balance have been extracted at the end of March, 2009, from the books of an electricity company:

	Rs.		*Rs.*
Share capital	2,00,00,000	Consumers' deposit	80,00,000
Fixed assets	5,00,00,000	Tariffs and dividends control reserve	20,00,000

Depreciation reserve on fixed assets	60,00,000	Development reserve	16,00,000
Reserve fund (invested in 8% Government securities (at par)	1,20,00,000	12% debentures	40,00,000
Contingency reserve invested in 7% State loan	24,00,000	Loan from State Electricity Board	50,00,000
Amount (contributed by consumers towards cost of fixed asset)	4,00,000	Intangible assets	16,00,000
		Current assets (monthly average)	30,00,000

The company earned a profit of Rs.56,00,000 (after tax) in 2008-2009. Show how the profits have to be dealt with by the company assuming the bank rate was 10%.

All workings should form part of your answers.

Departmental Accounts

14. Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 10% profit on cost. Department Y sells goods to X and Z at a profit of 15% and 20% on sales, respectively. Department Z charges 20% and 25% profit on cost to Department X and Y, respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

	Rs.
Department X	36,000
Department Y	27,000
Department Z	18,000

Stock lying at different departments at the end of the year are as under :

	Dept. X *Rs.*	*Dept. Y* *Rs.*	*Dept. Z* *Rs.*
Transfer from Department X	—	15,000	11,000
Transfer from Department Y	14,000	—	12,000
Transfer from Department Z	6,000	5,000	—

Find out the correct departmental profits after charging Managers' commission

Branch Accounts

15. Ganga Ltd. having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

    Following details are furnished for the year ended 31st March, 2009:

	Head Office	*Branch*
	(Rs.)	*(Rs.)*
Opening stock (as on 1.4.2008)	2,25,000	-
Purchases	25,50,000	-
Goods sent to branch (Cost to H.O. plus 80%)	9,54,000	-
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

    You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2009.

Accounting for Foreign Branches

16. An Indian company has a branch at Washington. Its Trial Balance as at 30th September, 2008 is as follows:

	Dr.	*Cr.*
	US $	*US $*
Plant and machinery	1,20,000	–
Furniture and fixtures	8,000	–
Stock, Oct. 1, 2007	56,000	–
Purchases	2,40,000	–
Sales	–	4,16,000
Goods from Indian Co. (H.O.)	80,000	–
Wages	2,000	–
Carriage inward	1,000	–
Salaries	6,000	–
Rent, rates and taxes	2,000	–
Insurance	1,000	–

Trade expenses	1,000	–
Head Office A/c	–	1,14,000
Trade debtors	24,000	–
Trade creditors	–	17,000
Cash at bank	5,000	–
Cash in hand	1,000	–
	5,47,000	5,47,000

The following further information is given :

(1) Wages outstanding – $ 1,000.

(2) Depreciate Plant and Machinery and Furniture and Fixtures @ 10 % p.a.

(3) The Head Office sent goods to Branch for Rs. 39,40,000.

(4) The Head Office shows an amount of Rs. 43,00,000 due from Branch.

(5) Stock on 30th September, 2008 – $ 52,000.

(6) There were no in transit items either at the start or at the end of the year.

(7) On September 1, 2006, when the fixed assets were purchased, the rate of exchange was Rs. 38 to one $.

On October 1, 2007, the rate was Rs. 39 to one $.

On September 30, 2008, the rate was Rs. 41 to one $.

Average rate during the year was Rs. 40 to one $.

You are asked to prepare :

(a) Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees.

(b) Trading and Profit and Loss Account for the year ended 30th September, 2008 and Balance Sheet as on that date depicting the profitability and net position of the Branch as would appear in India for the purpose of incorporating in the main Balance Sheet.

Conceptual Framework for Preparation and Presentation of Financial Statements

17. (a) Explain the purpose and status of the conceptual framework for preparation and presentation of financial statements in brief.

(b) Write short note on qualitative characteristics of financial statements.

Short Answer based Questions

18. Answer the following questions (Give adequate working notes):

(a) In X Bank Ltd., the doubtful assets (more than 3 years) as on 31.3.2009 is Rs.1,000 lakhs. The value of security (including DICGC 100% cover of Rs.100 lakhs) is ascertained at Rs.500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?

(b) X, Y and Z are partners. X became insolvent on 15.4.2009. The Capital account balance of partner Y is on the debit side. Partner Y is solvent. Should partner Y bear the loss arising on account of the insolvency of partner X?

(c) Alphs & Co., having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.2009, it was found that the goods dispatched by head office for Rs.2,00,000 was received by the branch only to the extent of Rs.1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

(d) "One of the characteristics of financial statements is neutrality"- Do you agree with this statement?

(e) Domestic Assurance Co. Ltd. received Rs.5,90,000 as premium on new policies and Rs.1,20,000 as renewal premium. The company received Rs.90,000 towards reinsurance accepted and paid Rs.70,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium?

(f) A loan outstanding of Rs.50,00,000 has DICGC cover. The loan guaranteed by DICGC is assigned a risk weight of 50%. What is the value of Risk-adjusted asset?

(g) X Ltd. acquired a fixed asset for Rs. 50,00,000. The estimated useful life of the asset is 5 years. The salvage value after useful life was estimated at Rs.5,00,000. The State Government gave a grant of Rs.10,00,000 to encourage the asset acquisition. At the end of the second year, the subsidy of the State Government became refundable. What is the fixed asset value after refund of grant/subsidy to the State Government but before amortising the asset value at the end of the second year?

Theory Questions based on Accounting Standards

19. (a) Which borrowing costs are eligible for capitalisation as per AS 16? Describe in brief.

(b) What are the disclosure requirements pertaining to 'Events occurring after the balance sheet date'?

(c) Discuss the accounting principles relevant to the auditors relating to:

(i) Prior period items.

(ii) Change in accounting estimates.

(d) Explain the provisions of AS 26 relating to retirement and disposal of intangible assets.

(e) If a sale and lease back transaction results in an operating lease, what provisions will be applicable? Describe in line with AS 19.

(f) Explain the provisions of AS 20 for restatement of shares.

Practical Problems based on Accounting Standards

20. (a) A Ltd. leased a machinery to B Ltd. on the following terms:

	(Rs. in Lakhs)
Fair value of the machinery	20.00
Lease term	5 years
Lease Rental per annum	5.00
Guaranteed Residual value	1.00
Expected Residual value	2.00
Internal Rate of Return	15%

Depreciation is provided on straight line method @ 10% per annum. Ascertain unearned financial income and necessary entries may be passed in the books of the Lessee in the First year.

(b) A Ltd. has income from continuing ordinary operations of Rs. 2,40,000, a loss from discontinuing operations of Rs. 3,60,000 and accordingly a net loss of Rs. 1,20,000. The company has 1,000 equity shares and 200 potential equity shares outstanding as at March 31, 2008. Compute basic and diluted EPS.

21. (a) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2007, when the exchange rate was Rs.43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2007 when the exchange rate was Rs.47 per US Dollar. However, on 31st March, 2007, the rate of exchange was Rs.48 per US Dollar. The company passed an entry on 31st March, 2007 adjusting the cost of raw materials consumed for the difference between Rs.47 and Rs.43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

(b) A company signed an agreement with the Employees Union on 1.9.2007 for revision of wages with retrospective effect from 30.9.2006. This would cost the company an additional liability of Rs. 5,00,000 per annum. Is a disclosure necessary for the amount paid in 2007-08?

22. (a) A company deals in petroleum products. The sale price of petrol is fixed by the government. After the Balance Sheet date, but before the finalisation of the company's accounts, the government unexpectedly increased the price retrospectively. Can the company account for additional revenue at the close of the year? Discuss.

(b) An enterprise has purchased an exclusive right to generate hydro-electric power for sixty years. The costs of generating hydro-electric power are much lower than the costs of obtaining power from alternative sources. It is expected that the geographical area surrounding the power station will demand a significant amount of power from the power station for at least sixty years. Discuss in the background of relevant accounting standards.

23. Daya Ltd. acquired a machine on 1-1-2004 for Rs. 10,00,000. The useful life is 5 years. The company had applied on 1-4-2004, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy, was received in November 2007. The company's Fixed Assets Account as at 31-3-2008 shows a credit balance as under:

	Rs.
Machine (original cost)	10,00,000
Accumulated depreciation (from 2004-2005 to 2006-2007 at straight line method)	(6,00,000)
	4,00,000
Less: Grant received	(8,00,000)
	(4,00,000)

How should the company deal with this asset in its account for 2007-08? Does it need to charge depreciation or negative depreciation for 2007-08? Can it credit Rs. 4,00,000 to capital reserve?

24. At the end of the financial year ending on 31st December, 2008, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

	Probability	*Loss (Rs.)*
In respect of five cases (Win)	100%	–
Next ten cases (Win)	60%	–
Lose (Low damages)	30%	1,20,000
Lose (High damages)	10%	2,00,000
Remaining five cases		
Win	50%	–
Lose (Low damages)	30%	1,00,000
Lose (High damages)	20%	2,10,000

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

25. X Ltd. began construction of a new building on 1st January, 2007. It obtained Rs.1 lakh special loan to finance the construction of the building on 1st January, 2007 at an interest rate of 10%. The company's other outstanding two non-specific loans were:

Amount	*Rate of Interest*
Rs.5,00,000	11%
Rs.9,00,000	13%

The expenditure that were made on the building project were as follows:

		Rs.
January	2007	2,00,000
April	2007	2,50,000
July	2007	4,50,000
December	2007	1,20,000

Building was completed by 31st December, 2007. Following the principles prescribed in AS-16 'Borrowing Cost,' calculate the amount of interest to be capitalized and pass one Journal Entry for capitalizing the cost and borrowing cost in respect of the building.

SUGGESTED ANSWERS / HINTS

1. Realisation Account

			Rs.				*Rs.*
To	Land & Building		1,00,000	By	Sundry Creditors		60,000
To	Furniture		40,000	By	X Ltd. Co. - Purchase consideration – (W.N.1)		2,79,000
To	Stock		1,00,000	By	X Ltd. Company –		
					Sundry Debtors	66,000	
To	Debtors		66,000		*Less*: Commission		
					5% on 66,000	3,300	62,700
To	X Ltd. Co. - Sundry Creditors		59,000				
To	X Ltd. Co. – Commission 3% on 59,000		1,770				
To	Profits transferred to A's Capital A/c	17,465					
	B's Capital A/c	17,465	34,930				
			4,01,700				4,01,700

Capital Accounts

	A	B		A	B
	Rs.	Rs.		Rs.	Rs.
To Shares in X Ltd. Co.–(W.N.2)	1,63,980	1,15,020	By Balance b/d	1,50,000	1,00,000
To Cash – Final Payment	3,485	2,445	By Realisation A/c - Profit	17,465	17,465
	1,67,465	1,17,465		1,67,465	1,17,465

Cash Account

	Rs.		Rs.
To Balance b/d	4,000	By A's Capital A/c- Final payment	3,485
To X Ltd. Co. (Amount realized from Debtors less amount paid to creditors) –(W.N.3) 1,930		By B's Capital A/c- Final Payment	2,445
	5,930		5,930

Working Notes:

1 Calculation of Purchase consideration:

	Rs.
Land & Building	1,20,000
Furniture	34,000
Stock	85,000
Goodwill	40,000
	2,79,000

2. The shares received from the company have been distributed between the two partners A & B in the ratio of their final claims i.e., 1,67,465: 1,17,465*.

No. of shares received from the company = $\frac{2,79,000}{12} = 23,250$

* In the above situation, shares received from X Ltd. Company have been distributed between two partners A and B in the ratio of their final claims. Alternatively, shares received from X Ltd. can be distributed among the partners in their profit sharing ratio i.e. Rs. 2,79,000 x ½ =Rs. 1,39,500 each. In that case, firm will pay cash amounting Rs. 27,965 to A and will receive cash Rs.22,035 from B.

A gets $\frac{23{,}250 \times 1{,}67{,}465}{2{,}84{,}930}$ =13,665 shares valued at 13,665 x 12 = Rs.1,63,980. B gets the remaining 9,585 shares, valued at Rs.1,15,020 (9,585 × 12)

3. Calculation of net amount received from X Ltd on account of amount realized from debtors less amount paid to creditors.

		Rs.
	Amount realized from Debtors	66,000
Less:	Commission for realization from debtors (5% on 66,000)	3,300
		62,700
Less:	Amount paid to creditors	59,000
		3,700
Less:	Commission for cash paid to creditors (3% on 59,000)	1,770
Net amount received		1,930

2. Statement of Distribution of Cash

	Realisation	*Interest on loans from partners' spouses*	*Interest on loans from partners*	*Partners' Capitals A*	*B*	*C*	*Total*
	Rs.	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs*
Balances due		2,000	1,000	9,600	6,000	8,400	24,000
(i) Sale of investments	1,000	(1,000)	-	-	-	-	-
		1,000	1,000	9,600	6,000	8,400	24,000
(ii) Sale of furniture	2,000	(1,000)	(1,000)	-	-	-	-
(a)		-	-	9,600	6,000	8,400	24,000
(iii) Sale of machinery	1,200						
Maximum possible loss Rs. 22,800 (total of capital A/cs Rs. 24,000 less cash available Rs. 1,200)							

allocated to partners in the profit sharing ratio i.e. 5 : 3 : 2		(11,400)	(6,840)	(4,560)	(22,800)
Amounts at credit		(1,800)	(840)	3,840	1,200
Deficiency of A and B written off against C		1,800	840	(2,640)	–
Amount paid (b)		–	–	1,200	1,200
Balances in capital accounts (a-b)=(c)		9,600	6,000	7,200	22,800
(iv) Sale of stock	4,000				
Maximum possible loss Rs. 18,800 (Rs. 22,800 – Rs. 4,000) Allocated to partners in the ratio 5 : 3 : 2		(9,400)	(5,640)	(3,760)	(18,800)
Amounts paid (d)		200	360	3,440	(4,000)
Balances in capital accounts left unpaid — Loss (c)-(d)=(e)		9,400	5,640	3,760	18,800

3. Journal Entries

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

	Debenture-holders A/c	Dr.	4,16,000	
	To 11% Preference Share Capital A/c			3,20,000
	To Securities Premium a/c			96,000
	(Being issue of 3200 preference shares of Rs.100 each at a premium of Rs.30 each in exchange of 4000 debentures)			
1.10.2009	Debentureholders A/c	Dr.	4,99,200	
	Discount on Issue of 11% Second Debentures A/c	Dr.	20,800	
	To 11% Second Debentures A/c			5,20,000
	(Issue of 5200 11% Second Debentures of Rs.100/- each at a discount of Rs.4 in exchange of 4800 Debentures)			
	Debentureholders A/c	Dr.	1,24,800	
	To Bank A/c			1,24,800
	(Being the redemption of 1200 debentures by cash)			

Working Notes:

(1) Redemption of debentures by issuing preference shares:

	Rs.
Claim of the holders of 4000 debentures @ Rs.104	4,16,000
Number of preference shares to be issued $\left(\frac{\text{Rs.4,16,000}}{130}\right)$	3,200

	Rs.
Face value of preference shares @ Rs.100 each	3,20,000
Premium of preference shares @ Rs.30 each	96,000

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

Claim of the holders of 4,800 debentures @ Rs.104	4,99,200
Number of 11% Second Debentures to be issued $\left(\frac{\text{Rs.4,99,200}}{\text{Rs.96}}\right)$	5,200

	Rs.
Face value of 11% Second Debentures @ Rs.100 each	5,20,000
Discount on issue of debentures @ Rs.4 each	20,800

(3) Redemption of debentures in cash:

Claim of the holders of 1200 debentures @ Rs.104	1,24,800
(10,000 – 4,000 – 4,800 = 1,200)	

4. Journal Entries in the Books of ABC Ltd.

Date	*Particulars*		*Dr. (Rs.)*	*Cr. (Rs.)*
31.3.2007	Employees compensation expenses account	Dr.	48,000	
	To Employees stock option outstanding account			48,000
	(Being compensation expenses recognized in respect of the employees stock option i.e. 1,000 options granted to employees at a discount of Rs. 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account	Dr.	48,000	
	To Employees compensation expenses account			48,000
	(Being expenses transferred to profit and loss account at the end of the year)			
31.3.2008	Employees compensation expenses account	Dr.	48,000	
	To Employees stock option outstanding account			48,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of Rs. 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account	Dr.	48,000	
	To Employees compensation expenses account			48,000
	(Being expenses transferred to profit and loss account at the end of the year)			

31.3.2009	Employees stock option outstanding account (W.N.1)	Dr.	12,000	
	To General Reserve account (W.N.1)			12,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
30.6.2009	Bank A/c (600 x Rs.40)	Dr.	24,000	
	Employee stock option outstanding account (600 x Rs.120)	Dr.	72,000	
	To Equity share capital account (600 x Rs. 10)			6,000
	To Securities premium account (600 x Rs.150)			90,000
	(Being 600 employees stock option exercised at an exercise price of Rs. 40 each)			
01.10.2009	Employee stock option outstanding account	Dr.	12,000	
	To General reserve account			12,000
	(Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of 100 options at the end of exercise of option period)			

Working Note:

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

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

5. (a) Statement of Allocation of Liability among Underwriters

	Aditya	*Diwan*	*Anoop*	*Total*
	(No.of Shares)	*(No.of Shares)*	*(No. of Shares)*	*(No. of Shares)*
Gross liability	6,30,000	2,10,000	2,10,000	10,50,000

Less: Firm undertaking	30,000	20,000	10,000	60,000
	6,00,000	1,90,000	2,00,000	9,90,000
Less: Marked Applications	5,50,000	2,00,000	1,50,000	9,00,000
	50,000	(10,000)	50,000	90,000
Less: Unmarked Applications (in the ratio of 3:1:1)	30,000	10,000	10,000	50,000
	20,000	(20,000)	40,000	40,000
Surplus of Diwan distributed between Aditya and Anoop in the ratio of 3:1	(15,000)	20,000	(5,000)	-
Net liability	5,000	-	35,000	40,000
Add: Firm undertaking	30,000	20,000	10,000	60,000
Underwriters' liability	35,000	20,000	45,000	1,00,000

(b) Alpha Chemicals Ltd.

Journal Entries

		Dr. *Rs.*	*Cr.* *Rs.*
Aditya	Dr.	12,500	
Anoop	Dr.	87,500	
To Equity share capital A/c			1,00,000
(Allotment of shares to underwriters: 5,000 shares to aditya and 35,000) shares to Anoop)			
Underwriting Commission A/c	Dr.	4,20,000	
To Aditya			2,52,000
To Diwan			84,000
To Anoop			84,000
(Underwriting commission payable @4% on the amount of shares underwritten)			
Aditya	Dr.	2,39,500	
Diwan	Dr.	84,000	
To Bank A/c			3,23,500
(Amount paid to Aditya and Diwan in final settlement)			

Bank A/c	Dr.	3,500	
To Anoop			3,500
(Amount received from Anoop on shares allotted less underwriting commission)			

Working Notes:

(1) Calculation of amounts payable to/by underwriters:

	Aditya	*Diwan*	*Anoop*
Liability (No. of shares)	35,000	20,000	45,000
Less: Firm undertaking (No. of Shares)	30,000	20,000	10,000
Net Liability (No. of shares)	5,000	-	35,000
	Rs.	*Rs.*	*Rs.*
Amount payable on application @ Rs.2.50 per share	12,500	-	87,500
Underwriting commission receivable by underwriters @ 4%	2,52,000	84,000	84,000
Amount payable to underwriters	2,39,500	84,000	-
Amount receivable from underwriters	-	-	3,500

(2) No Journal entry is shown for firm undertaking by the underwriters on the assumption that the amounts have been already paid by the underwrite at the opening day of the issue. Alternatively, the students may pass entries for firm undertaking on the ground that the allotment of shares will be made by the company at that time.

6. Journal Entries for Buy-back of shares of Gunshot Ltd.

(i)	Bank A/c	Dr.	3,20,000	
	To Non-trade Investments			3,00,000
	To Profit & Loss A/c			20,000
	(Being the entry for sale of Non-trade Investments)			
(ii)	Shares Buy back A/c (16,000 x Rs. 20)	Dr.	3,20,000	
	To Bank A/c			3,20,000
	(Being purchase of 16,000 shares @ Rs.20 per share)			

(iii)	Equity Share Capital A/c (16,000 x Rs.10)	Dr.	1,60,000	
	Buy-back Premium (16,000 x Rs.10)	Dr.	1,60,000	
	To Shares Buy-back A/c			3,20,000
	(Being cancellation of shares bought back)			
(iv)	Securities Premium A/c	Dr.	1,00,000	
	General Reserve	Dr.	60,000	
	To Buy-back Premium			1,60,000
	(Being adjustment of buy-back premium)			
(v)	General Reserve	Dr.	1,60,000	
	To Capital Redemption Reserve			1,60,000
	(Being the entry for transfer of General Reserve to Capital Redemption Reserve to the extent of face value of equity shares bought back)			

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

	Rs.
Profit and loss account (debit balance)	7,00,000
Preliminary expenses	1,00,000
Goodwill	2,00,000
Plant and machinery (Rs. 18,00,000 – Rs. 15,00,000)	3,00,000
Debtors (Rs. 7,50,000 – Rs. 4,00,000)	3,50,000
Amount to be written off	16,50,000
Less: 50% of sundry creditors	3,50,000
Total loss to be borne by the equity and preference shareholders*	13,00,000

(b) Share of loss to preference shareholders and equity shareholders

Total loss of Rs. 13,00,000 being more than 50% of equity share capital i.e. Rs.10,00,000.

Preference shareholders' share of loss = 20% of Rs. 10,00,000	= Rs. 2,00,000
Equity shareholders' share of loss (Rs. 13,00,000 – Rs. 2,00,000)	= Rs. 11,00,000
Total loss	Rs. 13,00,000

* Two years' preference dividend (arrears) have been ignored in the computation of loss to be borne by equity and preference shareholders.

(c) New structure of share capital after reorganisation

	Rs.
Equity shares:	
20,000 equity shares of Rs. 45 each, fully paid up (Rs. 20,00,000 – Rs. 11,00,000)	9,00,000
Preference shares:	
10,000, 9% preference shares of Rs. 80 each, fully paid up (Rs. 10,00,000 – Rs. 2,00,000)	8,00,000
	17,00,000

(d) Working capital of the reorganized company

Current Assets:	*Rs.*	*Rs.*
Stock		3,00,000
Debtors		4,00,000
Cash		1,50,000
		8,50,000
Less: Current liabilities:		
Creditors	3,50,000	
Bank overdraft **	75,000	4,25,000
Working capital		4,25,000

(e) Balance Sheet of Alteration Ltd. (and reduced)
as on 31st March, 2009

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital Authorised Issued and Paid up:		Fixed Assets:	
20,000 equity shares of Rs. 45 each	9,00,000	Plant and Machinery	15,00,000
10,000, 9% preference shares of Rs. 80 each	8,00,000	Current Assets:	
Unsecured loan:		Stock	3,00,000
Term loan with Bank	2,25,000	Debtors	4,00,000

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

Current liabilities:		Cash	1,50,000
Bank overdraft	75,000		
Creditors	3,50,000		
	23,50,000		23,50,000

8. **Books of A Limited**

Realisation Account

		Rs.			Rs.
To	Building	3,40,000	By	Creditors	3,20,000
To	Machinery	6,40,000	By	B Ltd.	12,10,000
To	Stock	2,20,000	By	Equity Shareholders (Loss)	76,000
To	Debtors	2,60,000			
To	Goodwill	1,30,000			
To	Bank (Exp.)	16,000			
		16,06,000			16,06,000

Bank Account

To	Balance b/d	1,36,000	By	Realisation (Exp.)	16,000
To	B Ltd.	6,00,000	By	10% Debentures	4,00,000
			By	Loan from A	1,60,000
			By	Equity shareholders	1,60,000
		7,36,000			7,36,000

10% Debentures Account

To	Bank	4,00,000	By	Balance b/d	4,00,000
		4,00,000			4,00,000

Loan from A Account

To	Bank	1,60,000	By	Balance b/d	1,60,000
		1,60,000			1,60,000

Misc. Expenses Account

To	Balance b/d	34,000	By	Equity shareholders	34,000
		34,000			34,000

General Reserve Account

To	Equity shareholders	80,000	By	Balance b/d	80,000
		80,000			80,000

B Ltd. Account

To	Realisation A/c	12,10,000	By	Bank	6,00,000
			By	Equity share in B Ltd.(4,880 shares at Rs.125 each)	6,10,000
		12,10,000			12,10,000

Equity Shares in B Ltd. Account

To	B Ltd.	6,10,000	By	Equity shareholders	6,10,000
		6,10,000			6,10,000

Equity Shareholders Account

To	Realisation	76,000	By	Equity share capital	8,00,000
To	Misc. Expenses	34,000	By	General reserve	80,000
To	Equity shares in B Ltd.	6,10,000			
To	Bank	1,60,000			
		8,80,000			8,80,000

B Ltd.

Balance Sheet as on 1st April, 2009 (An extract)*

Liabilities		*Rs.*	*Assets*		*Rs.*
4880 Equity shares of Rs.100 each		4,88,000	Goodwill		2,16,000
(Shares have been issued for consideration other than cash)			Building		3,06,000
Securities Premium		1,22,000	Machine		5,76,000
Profit and Loss A/c	….				
Less: unrealized profit	15,000	…..			
Creditors (3,20,000 - 40,000)		2,80,000	Stock (1,98,000 -15,000)		1,83,000
Bank Overdraft		6,00,000	Debtors (2,60,000 – 40,000)	2,20,000	
			Less: Provision for		
			bad debts	26,000	1,94,000

* In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

Working Notes:

1. **Valuation of Goodwill**

	Rs.
Average profit	1,24,400
Less: 8% of Rs.8,80,000	70,400
Super profit	54,000
Value of Goodwill = 54,000 x 4	2,16,000

2. **Net Assets for purchase consideration**

Goodwill as valued in W.N.1		2,16,000
Building		3,06,000
Machinery		5,76,000
Stock		1,98,000
Debtors		2,60,000
Total Assets		15,56,000
Less: Creditors	3,20,000	
Provision for bad debts	26,000	3,46,000
Net Assets		12,10,000

Out of this Rs.6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) Rs. 6,10,000 in shares of Rs.125/-. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3. **Unrealised Profit on Stock**

	Rs.
The stock of A Ltd. includes goods worth Rs.1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this stock will be $\frac{40,000}{1,60,000} \times 1,00,000$	25,000
As B Ltd. purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the stock i.e., 10% of Rs.1,00,000.	(-10,000)
Amount of unrealized profit	15,000

9. (a) **Statement of liabilities of B list contributories**

Share-holders	*No. of shares transferred*	*Maximum liability (upto Rs. 2 per share)*	*Division of Liability as on* 1.5.2008	1.10.2008	1.11.2008	1.2.2009	*Total*
		Rs.	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*
P	1,500	3,000	1,500	–	–	–	1,500
Q	1,000	2,000	1,000	555	–	–	1,555

R	500	1,000	500	278	188	–	966
S	300	600	300	167	112	21	600
	3,300	6,600	3,300	1,000	300	21	4,621

Working Note:

Date	*Cumulative liability*	*Increase in liability*	*Ratio of no. of shares held by the members*
1.5.2008	3,300	–	30 : 20 : 10 : 6
1.10.2008	4,300	1,000	20 : 10 : 6
1.11.2008	4,600	300	10 : 6
1.2.2009	6,000	1,400	Only S

Liability of S has been restricted to the maximum allowable limit of Rs. 600, therefore amount payable by S is restricted to Rs. 21 only, on 1.2.2009.

Notes:

1. A will not be liable to pay to the outstanding creditors since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 1st May, 2008 (from the date when he ceases to be member). Similarly, Q and R will not be responsible for the debts incurred after the date of their transfer of shares.

(b) Liquidators' Final Statement of Account

Receipts	*Rs.*	*Payments*	*Rs.*
Cash	4,13,000	Return to contributors:	
Realisation from:		Preference dividend	33,000
Calls in arrears	10,000	Preference shareholders	3,00,000
Final call of Rs. 5 per		Calls in advance	5,000
equity share of Rs. 50		Equity shareholders of	
each (Rs. 5 × 1,000)	5,000	Rs. 100 each (3,000 × Rs. 30)	90,000
	4,28,000		4,28,000

Working Note:

			Rs.
Cash account balance			4,13,000
Less:	Payment for dividend	33,000	

Preference shareholders	3,00,000	
Calls in advance	5,000	3,38,000
		75,000
Add: Calls in arrears		10,000
		85,000
Add: Amount to be received from equity shareholders of Rs. 50 each (1,000 × 20)		20,000
Disposable amount		1,05,000

Number of equivalent equity shares:

3,000 shares of Rs. 100 each = 6,000 shares of Rs. 50 each

1,000 shares of Rs. 50 each = 1,000 shares of Rs. 50 each

= 7,000 shares of Rs. 50 each

Final payment to equity shareholders = $\frac{\text{Amount left for distribution}}{\text{Total number of equivalent equity shares}}$

= Rs. 1,05,000 / 7,000 shares = Rs. 15 per share to equity shareholders of Rs. 50 each.

Therefore, for equity shareholders of Rs. 100 each $\left(\text{Rs.}15 \times \frac{100}{50}\right)$

= Rs. 30 per share

Calls in advance must be paid first, so as to pay the shareholders on prorata basis. Equity shareholders of Rs. 50 each have to pay Rs. 20 and receive Rs. 15 each. As a result, they are required to pay net Rs. 5 per share.

10. FORM B - RA

Name of the Insurer:

Registration No. and Date of Registration with the IRDA:

Fire Insurance Revenue Account

for the year ended 31st March, 2008

	Particulars	*Schedule*	*Amount (Rs.)*
(1)	Premium earned	1	11,50,000
(2)	Other income		-
(3)	Interest, dividend and rent		-
	Total (A)		11,50,000

(4)	Claims incurred	2	5,30,000
(5)	Commission	3	3,00,000
(6)	Operating expenses related to Insurance business	4	2,00,000
	Total (B)		10,30,000
	Operating Profit (A)- (B)		1,20,000

Schedule 1 : Premium earned (net)	*Rs.*
Premium received	13,00,000
Less: Re-insurance premium	1,00,000
Net premium	12,00,000
Adjustment for change in reserve for unexpired risks (Refer W.N.)	50,000
	11,50,000

Schedule 2 : Claims Incurred	*Rs.*
Claims paid including legal expenses (4,90,000 + 10,000)	5,00,000
Add : Claims outstanding at the end of the year	80,000
Less : Claims outstanding at the beginning of the year	(50,000)
Total claims incurred	5,30,000

Schedule 3 : Commission	*Rs.*
Commission paid	3,00,000
	3,00,000

Schedule 4: Operating expenses	*Rs.*
Expenses of management	2,00,000
	2,00,000

Working Note:

Change in the provision for unexpired risk	*Rs.*
Unexpired risk reserve on 31st March, 2008 =50% of net premium	
i.e. 50% of Rs.12,00,000 (See Schedule 1)	6,00,000
Less : Unexpired risk reserve as on 1st April 2007	5,50,000
Change in the provision for unexpired risk	50,000

11. Well-to-do Bank Ltd.

Profit and Loss Account

for the year ended 31st March, 2008

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

Assets	*Value*	*% of provision*	*Provision (Rs. in '000s)*
Standard Assets	5,000	0.40	20.00
Sub-standard Assets*	1,120	10	112.00
Doubtful Assets			
100% unsecured	200	100	200.00
Secured:			
Less than 1 year	50	20	10.00
More than 1 year but less than 3 years	300	30	90.00
More than 3 years	300	100	300.00
Loss Assets	200	100	200.00
Total Provision			932.00

12. Statement showing rebate on bills discounted

Value	*Due Date*	*Days after 31.3.2009*	*Rate of discount*	*Discount Amount*
18,25,000	5.6.2009	(30+ 31+5) = 66	12%	39,600
50,00,000	12.6.2009	(30+31+12) = 73	12%	1,20,000

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

28,20,000	25.6.2009	(30+31+25) = 86	14%	93,021
40,60,000	6.7.2009	(30+ 31+ 30+ 6) = 97	16%	1,72,633
1,37,05,000		Rebate on bills discounted on 31.3.2009		4,25,254

In the books of X Bank Ltd.

Journal Entries

(i)	Rebate on bills discounted Account	Dr.	2,21,600	
	To Discount on bills Account			2,21,600
	[Being opening balance of rebate on bills discounted account transferred to discount on bills account]			
(ii)	Discount on bills Account	Dr.	4,25,254	
	To Rebate on bills discounted Account			4,25,254
	[Being provision made on 31st March, 2009]			
(iii)	Discount on bills Account	Dr.	8,52,996	
	To Profit and loss Account			8,52,996
	[Being transfer of discount on bills, of the year, to profit and loss account]			

Credit to Profit and Loss A/c will be as follows:
10,56,650 + 2,21,600 – 4,25,254 = Rs.8,52,996

13.

(i) Calculation of Capital Base

			Rs.
Fixed Assets		5,00,00,000	
Less:	Consumers' Contribution towards Fixed Assets	4,00,000	4,96,00,000
Intangible Assets			16,00,000
Current Assets (Monthly Average)			30,00,000
Investment against Contingency Reserve			24,00,000
			5,66,00,000
Less:	Depreciation Reserve	60,00,000	
	Loan from Electricity Board	50,00,000	
	12% Debentures	40,00,000	
	Development Reserve	16,00,000	
	Consumers' Deposit	80,00,000	
Tariffs and Dividend Control Reserve		20,00,000	2,66,00,000
Capital Base			3,00,00,000

(ii) Calculation of Reasonable Return

12% (i.e. Bank Rate 10%+2%) on Rs. 3,00,00,000 Capital Base	36,00,000
8% on Reserve Fund Investment (8% on Rs.1,20,00,000)	9,60,000
$\frac{1}{2}$% on Loan from Electricity Board $\left(\frac{1}{2}\% \text{ on Rs.}50{,}00{,}000\right)$	25,000
$\frac{1}{2}$% on Debentures $\left(\frac{1}{2}\% \text{ on Rs.}40{,}00{,}000\right)$	20,000
$\frac{1}{2}$% on Development Reserve $\left(\frac{1}{2}\% \text{ on Rs.}16{,}00{,}000\right)$	8,000
Reasonable Return	46,13,000

(iii) Disposal of Surplus

Clear Profit	56,00,000
Less: Reasonable Return	46,13,000
Surplus	9,87,000
Less: 20% of Reasonable Return	9,22,600
Amount Refundable to Consumers credited to Consumers' Benefit Account	64,400

(iv) Statement Showing Allocation of Surplus upto 20% of Reasonable Return

Statement Showing Allocation of Surplus upto 20% of Reasonable Return	9,22,600
$\frac{1}{3}$ of Rs.9,22,600 i.e. Rs.3,07,533 limited to 5% of Reasonable Return at the disposal of the company (i.e. 5% of Rs.46,13,000)	2,30,650
Balance	6,91,950
$\frac{1}{2}$ of Balance credited to Tariffs and Dividend Control Reserve	3,45,975
Balance credited to Consumers' Benefit Account in addition to Rs.64,400	3,45,975
Amount at the Disposal of the Company (Rs.46,13,000+ 2,30,650)	48,43,650
Amount to be credited to Consumers' Benefit Account (Rs.64,400+Rs.3,45,975)	4,10,375

Amount to be transferred to Tariffs and Dividend Control Reserve	3,45,975
	56,00,000

14. Calculation of correct Profit

	Department X Rs.	Department Y Rs.	Department Z Rs.
Profit after charging managers' commission	36,000	27,000	18,000
Add back : Managers' commission (1/9)	4,000	3,000	2,000
	40,000	30,000	20,000
Less : Unrealised profit on stock (Refer Working Note)	4,000	4,500	2,000
Profit before Manager's commission	36,000	25,500	18,000
Less : Commission for Department Manager @10%	3,600	2,550	1,800
	32,400	22,950	16,200

Working Note :

Stock lying with

	Dept. X Rs.	Dept. Y Rs.	Dept. Z Rs.	Total Rs.
Unrealised Profit of :				
Department X		1/5×15,000 =3,000	1/11×11,000 =1,000	4,000
Department Y	0.15×14,000 =2,100		0.20×12,000 =2,400	4,500
Department Z	1/6×6,000 =1,000	1/5×5,000 =1,000		2,000

15. Trading and Profit and Loss A/c

For the year ended 31st March 2009

		Head office Rs.	Branch Rs.			Head office Rs.	Branch Rs.
To	Opening stock	2,25,000	-	By	Sales	27,81,000	9,50,000
To	Purchases	25,50,000	-	By	Goods sent to branch	9,54,000	-
To	Goods received from head office	-	9,54,000	By	Closing stock (W.N.1 & 2)	7,00,000	99,000
To	Gross profit c/d	16,60,000	95,000				
		44,35,000	10,49,000			44,35,000	10,49,000

To	Office expenses	90,000	8,500	By	Gross profit b/d	16,60,000	95,000
To	Selling expenses	72,000	6,300				
To	Staff salaries	65,000	12,000				
To	Branch Stock Reserve (W.N.3)	44,000	-				
To	Net Profit	13,89,000	68,200				
		16,60,000	95,000			16,60,000	95,000

Working Notes:

(1) Calculation of closing stock of head office:

	Rs.
Opening Stock of head office	2,25,000
Goods purchased by head office	25,50,000
	27,75,000
Less: Cost of goods sold [37,35,000* x 100/180]	20,75,000
	7,00,000

(2) Calculation of closing stock of branch:

	Rs.
Goods received from head office [At invoice value]	9,54,000
Less: Invoice value of goods sold [9,50,000 x 180/200]	8,55,000
	99,000

(3) Calculation of unrealized profit in branch stock:

Branch stock Rs.99,000

Profit included 80% of cost

Hence, unrealized profit would be = Rs. 99,000 x 80/180 = Rs.44,000

16. (a) In the books of Indian Company

Washington Branch Trial Balnce (in Rupees)

as on 30th September, 2008

(Rs. '000)

	Dr. *US $*	*Cr.* *US $*	*Conversion rate*	*Dr.* *Rs.*	*Cr.* *Rs.*
Plant and Machinery	1,08,000		41	44,28,000	

* Rs.27,81,000 + Rs.9,54,000

Depreciation on plant and machinery	12,000		41	4,92,000	
Furniture and fixtures	7,200		41	2,95,200	
Depreciation on furniture and fixtures	800		41	32,800	
Stock, Oct. 1, 2007	56,000		39	21,84,000	
Purchases	2,40,000		40	96,00,000	
Sales		4,16,000	40		1,66,40,000
Goods from Indian Co. (H.O.)	80,000			39,40,000	
Wages	3,000		40	1,20,000	
Outstanding wages		1,000	41		41,000
Carriage inward	1,000		40	40,000	
Salaries	6,000		40	2,40,000	
Rent, rates and taxes	2,000		40	80,000	
Insurance	1,000		40	40,000	
Trade expenses	1,000		40	40,000	
Head Office A/c		1,14,000			43,00,000
Trade debtors	24,000		41	9,84,000	
Trade creditors		17,000	41		6,97,000
Cash at bank	5,000		41	2,05,000	
Cash in hand	1,000		41	41,000	
Exchange gain (balancing figure)					10,84,000
				2,27,62,000	2,27,62,000

(b) **Washington Branch Trading and Profit and Loss Account for the year ended 30th September, 2008**

Dr.	*Rs.*		*Cr.* *Rs.*
To Opening stock	21,84,000	By Sales	1,66,40,000
To Purchases	96,00,000	By Closing stock	21,32,000
To Goods from Head Office	39,40,000	(52,000 US $ × 41)	
To Wages	1,20,000		

To Carriage inward	40,000		
To Gross profit c/d	28,88,000		
	1,87,72,000		1,87,72,000
To Salaries	2,40,000	By Gross profit b/d	28,88,000
To Rent, rates and taxes	80,000		
To Insurance	40,000		
To Trade expenses	40,000		
To Depreciation on plant and machinery	4,92,000		
To Depreciation on furniture and fixtures	32,800		
To Net Profit c/d	19,63,200		
	28,88,000		28,88,000

Balance Sheet of Washington Branch

as on 30th September, 2008

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Head Office A/c	43,00,000		Plant and machinery	49,20,000	
Add : Net profit	19,63,200	62,63,200	*Less* : Depreciation	4,92,000	44,28,000
Foreign currency translation			Furniture and fixtures	3,28,000	
reserve		10,84,000	*Less* : Depreciation	32,800	2,95,200
Trade creditors		6,97,000	Closing stock		21,32,000
Outstanding wages		41,000	Trade debtors		9,84,000
			Cash in hand		41,000
			Cash at bank		2,05,000
		80,85,200			80,85,200

Note : (1) Depreciation has been calculated at the given depreciation rate of 10% on WDV basis.

(2) The above solution has been given assuming that the Washington branch is a non-integral foreign operation of the Indian Company.

17. (a) *Purpose of the Framework:* The framework sets out the concepts underlying the preparation and presentation of general-purpose financial statements prepared by enterprises for external users. The main purpose of the framework is:

(a) To assist enterprises in preparation of their financial statements in compliance with the accounting standards and in dealing with the topics not yet covered by any accounting standard.

(b) To assist ASB in its task of development and review of accounting standards.

(c) To assist ASB in promoting harmonisation of regulations, accounting standards and procedures relating to the preparation and presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by accounting standards.

(d) To assist auditors in forming an opinion as to whether financial statements conform to the accounting standards.

(e) To assist the users in interpretation of financial statements.

Status and Scope of the Framework: The framework applies to general-purpose financial statements usually prepared annually for external users, by all commercial, industrial and business enterprises, whether in public or private sector. The special purpose financial reports, for example prospectuses and computations prepared for tax purposes are outside the scope of the framework. Nevertheless, the framework may be applied in preparation of such reports, to the extent not inconsistent with their requirements.

Nothing in the framework overrides any specific Accounting Standard. In case of conflict between an accounting standard and the framework, the requirements of the Accounting Standard will prevail over those of the framework.

(b) The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. The framework suggests that the financial statements should observe and maintain the following four qualitative characteristics as far as possible within limits of reasonable cost/ benefit.

1. *Understandability:* The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities. It is not right to think that more one discloses better it is. A mass of irrelevant information creates confusion and can be even more harmful than non-disclosure. No relevant information can be however withheld on the grounds of complexity.

2. *Relevance:* The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its omission or misstatement can influence economic decisions of a user.

3. *Reliability :* To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless:

    (a) Transactions and events reported are faithfully represented.

    (b) Transactions and events are reported in terms of their substance and economic reality not merely on the basis of their legal form. This principle is called the principle of 'substance over form'.

(c) The reporting of transactions and events are neutral, i.e. free from bias.

(d) Prudence is exercised in reporting uncertain outcome of transactions or events.

4. *Comparability*: Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

5. *True and Fair View:* Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The conceptual framework does not deal directly with this concept of true and fair view, yet the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements portraying true and fair view of information about an enterprise.

18. (a)

	(Rs. in lakhs)
Doubtful Assets (more than 3 years)	1,000
Less: Value of security (excluding DICGC cover)	400
	600
Less: DICGC cover	100
Unsecured portion	500
Provision:	
for unsecured portion @100%	500 lakhs
for secured portion @ 100% w.e.f 31.3.2007	400 lakhs
Total provision to be made	900 lakhs

(b) If some partner is having debit balance in his capital account and is not insolvent, then he cannot be called upon to bear the loss on account of the insolvency of the other partner.

Hence, Y need not bear the loss due to insolvency of partner X.

(c) Nagpur branch must include the inventory in its books as goods in transit.

The following journal entry must be made by the branch:

Goods in transit A/c Dr. 50,000

To Head office A/c 50,000

[Being Goods sent by Head office is still in transit on the closing date].

(d) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a pre-determined result or outcome. Financial statements are said to depict the true and fair view of the business of the organization by virtue of neutrality.

(e)

		Rs.
Premium received in respect of new policies		5,90,000
Add:	Renewal premium	1,20,000
		7,10,000
Add:	Re-insurance premium accepted	90,000
		8,00,000
Less:	Re-insurance ceded	70,000
Premium amount to be credited to Revenue A/c		7,30,000

(f)

Loan outstanding	Rs.50,00,000
Guaranteed by DICGC – Risk weight	50%
Value of risk adjusted asset Rs.50,00,000 × 50% =	Rs.25,00,000

(g) Statement showing the calculation of fixed assets at the end of the second year:

		Rs.
Original cost of the fixed assets		50,00,000
Less:	State Government grant received	(10,00,000)
		40,00,000
Less:	Amount to be written off in the first year $\frac{40,00,000 - 5,00,000}{5 \text{ years}}$	(7,00,000)
		33,00,000
Add:	Refund of State Government grant	10,00,000
Value of fixed assets, at the end of the second year, after refund of grant but before depreciation		43,00,000

19. (a) To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset. The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period should not exceed the amount of borrowing costs incurred during that period.

(b) According to AS 4, paras 13,14 and 15

Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern (i.e., the continuance of existence or substratum of the enterprise) is not appropriate.

Dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.

Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

(c) (i) The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

(ii) The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:

(a) the period of the change, if the change affects the period only; or

(b) the period of the change and future periods, if the change affects both.

The effect of a change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate.

The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.

(d) Para 87, 88 and 89 of AS 26 states that an intangible asset should be derecognised (eliminated from the balance sheet) on disposal or when no future economic benefits are expected from its use and subsequent disposal.

Gains or losses arising from the retirement or disposal of an intangible asset should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the statement of profit and loss.

An intangible asset that is retired from active use and held for disposal is carried at its carrying amount at the date when the asset is retired from active use. At least at each financial year end, an enterprise tests the asset for impairment under Accounting Standard on Impairment of Assets, and recognises any impairment loss accordingly.

(e) As per para 50 and 52 of AS 19, 'if a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognised immediately. If the sale price is below fair value, any profit or loss should be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.

For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognised immediately.

(f) According to para 44 of AS 20, 'If the number of equity or potential equity shares outstanding increases as a result of a bonus issue or share split or decreases as a result of a reverse share split (consolidation of shares), the calculation of basic and diluted earnings per share should be adjusted for all the periods presented. If these changes occur after the balance sheet date but before the date on which the financial statements are approved by the board of directors, the per share calculations for those financial statements and any prior period financial statements presented should be based on the new number of shares. When per share calculations reflect such changes in the number of shares, that fact should be disclosed.

20. (a) Computation of Unearned Finance Income

(i) Gross investment = Minimum lease payments + Unguaranteed residual value

= (Total lease rent + Guaranteed residual value) + Unguaranteed residual value

= [(Rs. 5,00,000 × 5 years) + Rs. 1,00,000] + Rs. 1,00,000

= Rs. 27,00,000

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

Year	*MLP inclusive of URV*	*Internal rate of return (Discount factor 15%)*	*Present Value*	
	Rs.		*Rs.*	
1	5,00,000	.8696	4,34,800	
2	5,00,000	.7561	3,78,050	
3	5,00,000	.6575	3,28,750	
4	5,00,000	.5718	2,85,900	
5	5,00,000	.4972	2,48,600	
	1,00,000	.4972	49,720	
	(guaranteed residual value)			
			17,25,820	(1)
	1,00,000	.4972	49,720	(2)
		(unguaranteed residual value)		
		(1) + (2)	17,75,540	

Unearned Finance Income = Gross investment – PV of MLP

= Rs. 27,00,000 – Rs. 17,75,540

= Rs. 9,24,460

Journal Entries in the books of B Ltd.

		Rs.	*Rs.*
At the inception of lease			
Machinery account	Dr.	7,25,820*	
To A Ltd.'s account			17,25,820*
(Being lease of machinery recorded at present value of MLP)			

* As per para 11 of AS 19, the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payments from the standpoint of lessee, the amount recorded should be the present value of these minimum lease payments. Therefore, in this case, as the fair value of Rs. 20,00,000 is more than the present value amounting Rs. 17,25,820, the machinery has been recorded at Rs. 17,25,820 in the books of B Ltd. (the lessee) at the inception of the lease. According to para 13 of the standard, at the inception of the lease, the asset and liability for the future lease payments are recognised in the balance sheet at the same amounts.

At the end of the first year of lease

Finance charges account (Refer W. N.)	Dr. 2,58,873	
To A Ltd.'s account		2,58,873
(Being the finance charges for first year due)		
A Ltd.'s account	Dr. 5,00,000	
To Bank account		5,00,000
(Being the lease rent paid to the lessor which includes outstanding liability of Rs. 2,41,127 and finance charge of Rs. 2,58,873)		
Depreciation account	Dr. 1,72,582	
To Machinery account		1,72,582
(Being the depreciation provided @ 10% p.a. on straight line method)		
Profit and loss account	Dr. 4,31,455	
To Depreciation account		1,72,582
To Finance charges account		2,58,873
(Being the depreciation and finance charges transferred to profit and loss account)		

Working Note:

Table showing apportionment of lease payments by B Ltd. between the finance charges and the reduction of outstanding liability.

Year	*Outstanding liability (opening balance)*	*Lease rent*	*Finance charge*	*Reduction in outstanding liability*	*Outstanding liability (closing balance)*
	Rs.	*Rs.*	*Rs.*	*Rs.*	*Rs.*
1	17,25,820	5,00,000	2,58,873	2,41,127	14,84,693
2	14,84,693	5,00,000	2,22,704	2,77,296	12,07,397
3	12,07,397	5,00,000	1,81,110	3,18,890	8,88,507
4	8,88,507	5,00,000	1,33,276	3,66,724	5,21,783
5	5,21,783	5,00,000	78,267	5,21,783	1,00,050*
			8,74,230	17,25,820	

*The difference between this figure and guaranteed residual value (Rs. 1,00,000) is due to approximation in computing the interest rate implicit in the lease.

(b) As per para 39 of AS 20, 'Potential Equity Shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations.'

As income from continuing operations is the control figure as per para 40, Rs. 2,40,000 should be considered and not Rs. (1,20,000) for deciding whether the potential equity shares are dilutive or anti-dilutive. Accordingly, 200 potential equity shares would be dilutive potential equity shares since their inclusion decrease the net profit per share from continuing operations from Rs. 240 (i.e. Rs.2,40,000/ 1,000 shares) to Rs. 200 (i.e. Rs.2,40,000/1,200 shares). In view of the above, the basic loss per share would be Rs. 120 and diluted loss per share would be Rs. 100.

21. (a) As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Sundry creditors is a monetary item, hence should be valued at the closing rate i.e, Rs.48 at 31st March, 2007 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of Rs.5 (48-43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2007 and is not to be adjusted against the cost of raw- materials. In the subsequent year, the company would record an exchange gain of Re.1 per US dollar, i.e., the difference between Rs.48 and Rs.47 per Us dollar. Hence, the accounting treatment adopted by the company is incorrect.

(b) It is given that revision of wages took place on 1st September, 2007 with retrospective effect from 30.9.2006. Therefore wages payable for the half year from 1.10.2006 to 31.3.2007 cannot be taken as an error or omission in the preparation of financial statements and hence this expenditure cannot be taken as a prior period item.

Additional wages liability of Rs. 7,50,000 (for 1½ years @ Rs. 5,00,000 per annum) should be included in current year's wages.

It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Although abnormal in amount, such an expense does not qualify as an extraordinary item. However, as per para 12 of AS 5 (Revised), when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

22. (a) According to para 8 of AS 4 (Revised 1995), the unexpected increase in sale price of petrol by the government after the balance sheet date cannot be regarded as an event occurring after the Balance Sheet date, which requires an adjustment at the Balance Sheet date, since it does not represent a condition present at the balance sheet date. The revenue should be recognized only in the subsequent year with proper disclosures. The retrospective increase in the petrol price should not be

considered as a prior period item, as per AS 5, because there was no error in the preparation of previous period's financial statements.

(b) According to AS 26, the enterprise should amortise the right to generate power over sixty years, unless there is evidence that its useful life is shorter. But the enterprise should subject this right to impairment testing at each year end during its useful life since useful life is considered to be more than 10 years.

23. In respect of depreciable assets, AS 12 does not permit the crediting of the grant or any part thereof to capital reserve. The company has only two options – reduce the grant from the cost of fixed assets or treat it as deferred income. It appears that company follows the first option. Out of the Rs. 8,00,000 that has been received, Rs. 4,00,000 is the balance in Machinery account and so Rs. 4,00,000 should be credited to the Machinery account. The balance Rs. 4,00,000 may be credited to profit & loss account as already the cost of the assets to the tune of Rs. 6,00,000 has been debited to profit and loss account in the earlier years and Rs. 4,00,000 transferred to profit & loss account would be partial recovery of that cost. There is no need to provide depreciation for 2007-08 or 2008-09 as the depreciable amount is now Nil.

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

(i) There is a present obligation arising out of past events but not recognized as provision.

(ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

(iii) The possibility of an outflow of resources embodying economic benefits is also remote.

(iv) The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision.

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

Expected loss in next ten cases = 30% of Rs. 1,20,000 + 10% of Rs. 2,00,000

= Rs. 36,000 + Rs. 20,000

= Rs. 56,000

Expected loss in remaining five cases = 30% of Rs. 1,00,000 + 20% of Rs. 2,10,000

= Rs. 30,000 + Rs. 42,000

= Rs. 72,000

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

25. (i) Computation of average accumulated expenses

		Rs.
Rs. 2,00,000 x 12 / 12	=	2,00,000
Rs. 2,50,000 x 9 / 12	=	1,87,500
Rs. 4,50,000 x 6 / 12	=	2,25,000
Rs. 1,20,000 x 1 / 12	=	10,000
		6,22,500

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (in Rs.)	*Rate of interest*		*Ampount of interest (in Rs.)*
5,00,000	11%	=	55,000
9,00,000	13%	=	1,17,000
14,00,000			1,72,000

Weighted average rate of interest $\left(\frac{1,72,000}{14,00,000}\times 100\right)$ = 12.285% (approx)

(iii) Interest on average accumulated expenses

		Rs.
Specific borrowings (Rs. 1,00,000 X 10%)	=	10,000
Non-specific borrowings (Rs. 5,22,500* X 12.285%)	=	64,189
Amount of interest to be capitalized	=	74,189

(iv) Total expenses to be capitalized for building

	Rs.
Cost of building Rs.(2,00,000 + 2,50,000 + 4,50,000 + 1,20,000)	10,20,000
Add: Amount of interest to be capitalised	74,189
	10,94,189

* (Rs. 6,22,500 – Rs. 1,00,000)

(v) Journal Entry

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
31.12.2007	Building account	Dr.	10,94,189	
	To Bank account			10,94,189
	(Being amount of cost of building and borrowing cost thereon capitalized)			

PAPER – 5 : ADVANCED ACCOUNTING

QUESTIONS

Partnership - Dissolution of a firm

1. A partnership firm was dissolved on 30th June, 2011. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	₹	₹	Assets	₹
Capitals:			Cash	5,400
Hary	38,000		Sundry Assets	94,600
Charlie	24,000			
Prince	18,000	80,000		
Loan A/c – Charlie		5,000		
Sundry Creditors		15,000		
		1,00,000		1,00,000

The Assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 14,500 in full settlement of their account. Expenses of realization were estimated to be ₹ 2,700 but actual amount spent was ₹ 2,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2011	12,600
On 30th August, 2011	30,000
On 15th September, 2011	40,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Give working notes.

Partnership - Conversion of a firm to a Company

2. Ramesh, Roshan and Rohan were partners of the firm '3R Enterprises' sharing profits and losses in the ratio of 3:2:1 respectively. On 31st March, 2011 their Balance Sheet stood as follows:

Liabilities	₹	*Assets*	₹
Ramesh's Capital A/c	16,80,000	Land and Buildings	14,00,000
Roshan's Capital A/c	11,60,000	Machinery	11,00,000
Rohan's Capital A/c	6,70,000	Furniture	6,10,000
General Reserve	6,30,000	Stock	8,40,000

Creditors	6,00,000	Debtors	6,00,000
		Cash at Bank	1,90,000
	47,40,000		47,40,000

On the above-mentioned date, the partners decided to convert their firm into a private limited company and named it '3R Enterprises (Private) Ltd.' The company took over all the assets including cash at bank and all the creditors for ` 42,00,000 payable in the form of fully paid equity shares of ` 10 each. It recorded in its books, land and buildings at ` 16,40,000, machinery at ` 9,90,000 and created a provision for bad debts @ 5% on debtors. The expenses of the take-over came to ` 23,000 which were paid and borne by the company.

The expenses of getting the company incorporated were ` 57,000.

The partners distributed the company's shares amongst themselves in their profit sharing ratio. They settled their accounts by paying or receiving cash.

Prepare Realization Account and all the partners' capital accounts in the firm's ledger and pass journal entries in the books of the company for all of its transactions mentioned above.

Partnership-Sale to a Company

3. A and B were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.2009 was:

Liabilities		`	Assets		`
Sundry Creditors		60,000	Stock		60,000
Bank overdraft		35,000	Machinery		1,50,000
Capital A/cs:			Debtors		70,000
A	1,40,000		Joint Life Policy		9,000
B	1,30,000	2,70,000	Leasehold Premises		34,000
			Profit & Loss A/c		26,000
			Drawings Accounts:		
			A	10,000	
			B	6,000	16,000
		3,65,000			3,65,000

The business was carried on till 30.6.2010. The partners withdrew in equal amounts half the amount of profits made during the period of six months after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by ` 10,000 and bank overdraft by ` 15,000.

On 30.6.2010, stock was valued at ₹ 75,000 and Debtors at ₹ 60,000; the Joint Life Policy had been surrendered for ₹ 9,000 before 30.6.2010 and other items remained the same as at 31.12.2009.

On 30.6.2010, the firm sold the business to a Limited Company. The value of goodwill was fixed at ₹ 1,00,000 and the rest of the assets were valued on the basis of the Balance Sheet as at 30.6.2010. The company paid the purchase consideration in Equity Shares of ₹ 10 each.

You are required to prepare: (a) Balance Sheet of the firm as at 30.6.2010; (b) The Realisation Account; (c) Partners' Capital Accounts showing the final settlement between them.

Employees Stock Option Plan

4. Brite Ltd. has its share capital divided into shares of ₹ 10 each. On 1st April, 2010, it granted 25,000 employees stock options at ₹ 50 when the market price was ₹ 140 per share. The options were to be exercised between 1st January, 2011 and 28th February, 2011. The employees exercised options for 24,000 shares only; the remaining options lapsed. The company closes its books of account on 31st March every year.

   You are required to show journal entries for all the above-mentioned transactions.

Buy-back of Shares

5. X Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

Underwriting of Shares

6. W Ltd. issued 1,00,000 equity shares and got the entire issue underwritten as follows:

   P 60% shares, Q 25% shares and R 15% shares.

   In addition to the above-mentioned arrangement, there was the following firm underwriting:

   P 5,000 shares, Q 4,000 shares and R 3,000 shares.

   Total subscriptions including firm underwriting were 85,000 shares.

   The marked applications were as follows:

   P 19,000 shares, Q 20,000 shares and R 6,000 shares.

   The shares underwritten firm were treated as unmarked applications.

   Calculate the liability of each one of the underwriters in shares.

Redemption of Debentures

7. On 1st January, 2011, Blue Lotus Limited had ` 8,00,000 5% Debentures, outstanding in its books, redeemable on 31st December, 2011.

On 1st January, 2011, the balance in Sinking Fund was ` 7,49,000 represented by:

(i) ` 1,00,000 Own Debentures purchased at an average price of ` 99; and

(ii) ` 6,60,000 nominal value of 3% War Loan.

The amount annually credited to the Sinking Fund was ` 28,400.

The interest on debentures was paid by the company every year on 31st December and interest on War Loan was received also on 31st December annually.

On 31st December, 2011 the outside investments were realized at 98 per cent and all the outstanding Debentures were redeemed on that date.

You are required to write up the necessary ledger accounts for the year 2011 in the books of the company.

Amalgamation of Companies

8. All India Motels Ltd. absorbed the business of West India Motels Ltd. as on 31st March, 2011. Their respective positions of assets and liabilities as on that date to absorption were as under:

	All India	West India
	`	`
Share Capital	6,00,00,000	6,00,00,000
Reserves and Surplus	5,40,00,000	3,60,00,000
Debentures	8,00,00,000	9,60,00,000
Sundry Creditors	2,20,00,000	4,80,00,000
Goodwill	4,48,00,000	3,20,00,000
Buildings	11,60,00,000	11,20,00,000
Machinery	1,80,00,000	1,60,00,000
Sundry Debtors	60,00,000	5,60,00,000
Stock/Inventory	80,00,000	2,00,00,000
Cash	32,00,000	40,00,000
Investments	2,00,00,000	–

The intrinsic value of West India shares has to be determined. Equivalent intrinsic value worth of ` 10 fully paid up shares of All India are to be issued to the shareholders of West India. 50% of debtors of All India comprises of moneys due from West India. Inventory of West India includes goods worth ` 30 lakhs sold by All India at cost plus

20% value. Called and paid up on All India shares is ` 8 per share whilst it is ` 5 per share in case of West India. Face value of shares of both the companies is ` 10. Investments were valued at ` 2,60,00,000.

Indicate the necessary journal entries to record the above transactions assuming amalgamation in the nature of purchase.

Internal Reconstruction of a Company

9. The Balance Sheet of Assurance Co. Ltd. as on 31-3-2011 is as follows:

Liabilities		`	Assets	`
Share capital:			Freehold Property	3,50,000
2,000, 6% Cumulative preference			Plant	50,000
shares of ` 100 each fully paid up		2,00,000	Trade Investments (at cost)	60,000
75,000, Equity shares of ` 10			Debtors	4,00,000
each fully paid up		7,50,000	Stock	2,00,000
6% Debentures			Deferred Advertising Exp.	1,50,000
(Secured by freehold property)	3,75,000		Profit & Loss A/c	3,50,000
Accrued interest	22,500	3,97,500		
Creditors		12,500		
Directors' loan		2,00,000		
		15,60,000		15,60,000

The Court approved a scheme of reorganization to take effect on 1-4-2011 whereby:

(i) Preference shares to be written down to ` 75 each and Equity shares to ` 2 each.

(ii) Preference dividends is in arrears for 4 years, 75% to be waived off and Equity shares of ` 2 each to be allotted for the remaining quarter.

(iii) Accrued debenture interest to be paid in cash.

(iv) Debentureholders agreed to take over Freehold Property (Book Value – ` 1,50,000) at a valuation of ` 1,50,000 in part repayment of their holdings and to provide additional cash of ` 1,30,000 secured by a floating charge on the Company's assets at an interest rate of 10% p.a.

(v) Deferred Advertising to be written off.

(vi) Stock to be written off fully.

(vii) ` 2,33,000 to be provided as doubtful debts.

(viii) Remaining Freehold Property to be revalued at ` 4,00,000.

(ix) Investment sold out for ` 1,50,000.

(x) In settlement of their loans, Directors are to accept Equity Share of ₹ 2 each for 90% of their loans, waving 10% of the balance of their loan amount.

(xi) Capital commitments contracts totaling ₹ 3,00,000 are to be cancelled by payment of penalty @ 5% of Contract Value.

(xi) Taxation and cost of scheme are to be ignored.

Show Journal entries, reflecting the effect of the above transactions (including cash transactions) and draw up the Balance Sheet after effecting the Scheme.

Liquidation of a Company

10. The liquidation of a joint stock company commenced on 1st April, 2011. Certain creditors could not receive payment out of realization of assets and the contributions from A list contributories. The following are the details of certain transfers which took place:

Shareholder's name	No. of shares transferred	Date of ceasing to be a member	Creditors remaining unpaid outstanding on the date of each transfer ₹
A	2,000	2nd March, 2010	5,000
B	1,500	3rd May, 2010	3,300
C	1,000	1st Sept., 2010	4,300
D	500	23rd Nov., 2010	4,600
E	300	1st Feb.,2011	6,000

All the shares were of the face value of ₹ 10 each, ₹ 8 per share paid up.

Show the amount to be realized from the various persons listed above, ignoring expenses and remuneration to liquidator.

Financial Statements of Banking Companies

11. The following figures have been taken from the books of National Bank Limited as on 31st March, 2011:

	₹
Paid up share capital	20,00,000
Interest and discount received	74,11,000
Interest paid on deposits	40,74,000
Salaries and allowances	4,00,000
Rent and taxes paid	1,80,000
Directors' fees and allowances	60,000

Statutory reserve fund	16,00,000
Postages and telegrams	1,20,000
Rent received	1,30,000
Commission, exchange and brokerage	3,80,000
Profit on sale of investments	4,00,000
Depreciation on bank's property	60,000
Law charges	80,000
Auditors' fees	10,000

The following additional information is given to you :

(i) One customer to whom a sum of ` 20 lakhs was advanced has become insolvent and it is expected that only 50% of the amount will be recovered from his estate.

(ii) Auditors find that a provision of ` 3 lakhs is necessary against other debts.

(iii) Rebate on bills discounted on 31st March, 2010 was ` 24,000 and on 31st March, 2011 was ` 32,000.

(iv) Provide ` 13,00,000 for income tax.

(v) The Board of Directors decides to declare dividend @ 10% after transfer of 25% of the year's profit to Statutory Reserve.

You are required to prepare Profit and Loss Account of the bank with all the necessary schedules for the year ended 31st March, 2011. Ignore figures for the previous year and corporate dividend tax.

Financial Statements of Insurance Companies

12. The following particulars are presented to you by Goodluck General Insurance Company regarding its fire insurance business for the year ended 31st March, 2011:

	`	`
Reserve for unexpired risk on 31st March, 2010		
(i) 50% of net premium income for 2009-2010	5,00,000	
(ii) Additional reserve on 31st March, 2010	1,00,000	6,00,000
Claims paid		2,80,000
Commission paid		80,000
Bad debts		10,000
Expenses of management		2,90,000
Premiums received less reinsurances		12,10,000

Claims outstanding on 31st March, 2010		1,00,000
Commission earned on reinsurance ceded		59,000
Estimated liability on 31st March, 2011 in respect of claims due or intimated		2,00,000

Prepare the Fire Revenue Account for the year ended 31st March, 2011 in the proper form and with necessary schedules. On 31st March, 2011 the company decides to keep total additional reserve for unexpired risk equal to 15% of the net premium income for the year.

Financial Statements of Electricity Companies

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

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

Show how the surplus of the company will be disposed off under the provisions of the Electricity Act.

Departmental Accounting

14. The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2011 after adjusting the unrealized department profits if any.

	Deptt. A ₹	Deptt. B ₹
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were ₹ 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A ₹ 1,00,000 including goods from Department B for ₹ 20,000 at cost of Department A. (b) Closing stock of Department B ₹ 2,00,000 including goods from Department A for ₹ 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of ` 10,000 and ` 15,000 taken form Department B and Department A respectively at cost to transferee departments. (d) The gross profit is uniform from year to year.

Branch Accounts

15. Universal Ltd. has a branch which closes its books of account every year on 31st March.

    You are required to show journal entries in the books of branch on 31st March, 2011 to rectify or adjust the following:

    (i) Head office allocates ` 35,000 to the branch as head office expenses, which have not yet been recorded by branch.

    (ii) Depreciation of branch fixed assets, whose accounts are kept by headoffice in its books, not yet recorded in the branch books, ` 15,000.

    (iii) Branch paid ` 40,000 as salary to a head office official on visit to branch and debited the amount to its Salaries Account.

    (iv) Head Office collected ` 30,000 directly from a branch customer on behalf of the branch but no intimation was received earlier by the branch. Now the branch learns about it.

    (v) It is learnt that a remittance of ` 50,000 sent by the branch has not been received by head office till date.

16. A Chennai merchant opens a new branch in Kolkata which trades independently of the Head Office. The transactions of the Branch for the year ended 31-3-2011 are as under:

	`	`		`
Goods supplied by			Cash received from	30,400
Head Office		20,000	Customers	
Purchases from outsiders-			Cash paid to Creditors	14,200
Credit	15,500		Expenses paid by Branch	8,950
Cash	3,000	18,500	Furniture purchased by	
Sales : Credit	25,000		Branch on Credit	3,500
Cash	4,600	29,600	Cash received from Head	
			Office initially	4,000
			Remitted to Head Office	11,000

Prepare the Branch Trading and Profit & Loss Account and the Branch Account in the Head Office Books after incorporation of the Branch trial balance taking the following into consideration:

(a) The accounts of the Branch Fixed Assets are maintained in H.O. books.

(b) Write off depreciation on Furniture at 5 per cent per annum.

(c) A remittance of ` 2,000 from the Branch to the Head Office is in transit.

(d) The Branch Closing Stock is valued at ` 12,000.

Accounting Standards

AS 4

17. (a) A Limited Company closed its accounting year on 30.6.2010 and the accounts for that period were considered and approved by the board of directors on 20th August, 2010. The company was engaged in laying pipe line for an oil company deep beneath the earth. While doing the boring work on 1.9.2010 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of ` 80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.2010.

AS 5

(b) A Limited Company finds that the stock sheets as on 31.3.2010 had included twice an item the cost of which was ` 20,000.

You are asked to suggest, how the error would be dealt with in the accounts of the year ended 31.3.2010.

AS 11

18. (a) S Ltd. purchased fixed assets costing ` 3,000 lakhs on 1.1.2010 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ` 40.00 and ` 42.50 as on 1.1.2010 and 31.12.2010 respectively. First instalment was paid on 31.12.2010. The entire difference in foreign exchange has been capitalized.

You are required to state, how these transactions would be accounted for.

AS 12

(b) A company purchased on April 1, 2010 a special purpose machinery for ` 1 crore, and received Central Government subsidy for 25% of the price. Effective life of the machinery is 8 years. Explain the accounting treatment and quote the relevant AS.

AS 16

19. (a) In May, 2010, S Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2011 and the building was put to use immediately thereafter. Interest on actual amount used for construction of the building till its completion was ` 18 lakhs whereas the total interest paid to the bank on the loan for the period till 31st March, 2011 amounted to

` 25 lakhs.

What amount of interest should be capitalized as per Accounting Standard - 16 ?

AS 19

(b) S&P Ltd. availed a lease from N&S Ltd. The conditions of the lease terms are as under:

(i) Lease period is 3 years, in the beginning of the year 2009, for equipment costing ` 10,00,000 and has an expected useful life of 5 years.

(ii) The Fair market value is also ` 10,00,000.

(iii) The property reverts back to the lessor on termination of the lease.

(iv) The unguaranteed residual value is estimated at ` 1,00,000 at the end of the year 2011.

(v) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%.

The present value of ` 1 due at the end of 3rd year at 10% rate of interest is ` 0.7513.

The present value of annuity of ` 1 due at the end of 3rd year at 10% IRR is ` 2.4868.

State whether the lease constitute finance lease and also calculate unearned finance income.

AS 26

20. (a) AIIMS spent ` 4 crores during the last three years to develop a drug to be used in the treatment of brain tumour; the expenditure was charged to Profit and Loss Account since the expenditure did not meet Accounting Standard 26 criteria for capitalization. However, in the current year, approval of the Central Government Authority has been received to market the product. The Hospital wishes to capitalize 4 crores, the amount spent in the earlier years also and disclose it as a prior period item. Can it do so? Give reasons in support of your answer.

AS 20

(b) Compute Basic Earnings per share from the following information:

Date	*Particulars*	*No. of shares*
1st April, 2009	Balance at the beginning of the year	1,500
1st August, 2009	Issue of shares for cash	600
31st March, 2010	Buy back of shares	500

Net profit for the year ended 31st March, 2010 was ` 2,75,000.

AS 29

(c) An airline is required by law to overhaul its aircraft once in every five years. A company which operates aircrafts does not provide any provision as required by law in its final account. Discuss with reference to relevant Accounting Standard.

SUGGESTED ANSWERS/HINTS

1. Statement showing distribution of cash

	Creditors	Charlie's Loan	Hari	Charlie	Prince
2011	`	`	`	`	`
June 30					
Balance b/d	15,000	5,000	38,000	24,000	18,000
Cash balance less Provision for expenses (` 5,400 – ` 2,700)	2,700	-	-	-	-
Balances unpaid	12,300	5,000	38,000	24,000	18,000
July 5					
1^{st} Instalment of ` 12,600	11,800	800	-	-	-
Discount received on full settlement	500	4,200	38,000	24,000	18,000
Less: Transferred to Realisation A/c	500				
	Nil				
August 8					
2^{nd} instalment of ` 30,000(W.N. 2)		4,200	16,320	2,320	7,160
Balance unpaid		Nil	21,680	21,680	10,840
September 15					
Amount realised ` 40,000					
Add: Balance out of the Provision for Expenses A/c 700					
40,700					
Amount unpaid being loss Realisation in the ratio of 2 : 2 : 1			16,280	16,280	8,140
			5,400	5,400	2,700

Working Notes:

1. Cash distribution to make capital proportionate

		Hari	Charlie	Prince
		₹	₹	₹
1.	Present Capitals	38,000	24,000	18,000
2.	Profit-sharing ratio	2	2	1
3	Capital per unit of Profit share (1 ÷ 2)	19,000	12,000	18,000
4.	Proportionate capitals taking Charlie whose capital is the least, as the basis	24,000	24,000	12,000
5.	Excess capital (1-4)	14,000	Nil	6,000
6.	Proportionate capitals as between Hari and Prince taking Prince capital as the basis	36,000	-	18,000
7.	Excess of Hari's Capital (1-6)	2,000	-	-
8.	Distribution sequence:			
	First ₹ 2,000 (2 : 0 : 0)	2,000	-	-
	Next ₹ 18,000 (2 : 0 : 1)	12,000	-	6,000
	Over ₹ 20,000 (2 : 2 : 1)			

2. Second instalment is distributed as follows

	Creditors	Hari	Charlie	Prince
First ₹ 4,200	4,200	-	-	-
Next ₹ 2,000 (2 : 0 : 0)		2,000	-	-
Next ₹ 18,000 (2 : 0 : 1)		12,000	-	6,000
Balance ₹ 5,800 (2 : 2 : 1)		2,320	2,320	1,160
30 000	4,200	16,320	2,320	7,160

2. In the books of 3R Enterprises

Realisation Account

	₹		₹
To Land and Buildings	14,00,000	By Creditors	6,00,000
To Machinery	11,00,000	By 3R Enterprises (Pvt.) Ltd. A/c	42,00,000
To Furniture	6,10,000		
To Stock	8,40,000		

To Debtors	6,00,000		
To Cash at Bank	1,90,000		
To Ramesh's capital	30,000		
To Roshan's capital	20,000		
To Rohan's capital	10,000		
	48,00,000		48,00,000

Partners' Capital Accounts

	Ramesh	Roshan	Rohan		Ramesh	Roshan	Rohan
	`	`	`		`	`	`
To Shares in 3R Enterprises (Pvt.) Ltd. A/c	21,00,000	14,00,000	7,00,000	By Balance b/d	16,80,000	11,60,000	6,70,000
				By General Reserve	3,15,000	2,10,000	1,05,000
To Bank A/c (Settlement)	-	-	85,000	By Realization A/c (Profit)	30,000	20,000	10,000
				By Bank A/c (Settlement)	75,000	10,000	-
	21,00,000	14,00,000	7,85,000		21,00,000	14,00,000	7,85,000

Journal Entries

			`	`
1.	Business Purchase A/c	Dr.	42,00,000	
	To M/s 3R Enterprises			42,00,000
	(Consideration payable for business purchased)			
2.	Land and Buildings A/c	Dr.	16,40,000	
	Machinery A/c	Dr.	9,90,000	
	Furniture A/c	Dr.	6,10,000	
	Stock A/c	Dr.	8,40,000	
	Debtors A/c	Dr.	6,00,000	
	Bank A/c	Dr.	1,90,000	
	To Creditors A/c			6,00,000
	To Provision for doubtful debts A/c			30,000
	To Business Purchase A/c			42,00,000
	To Capital Reserve A/c			40,000
	(Assets and liabilities taken over for ` 42,00,000; balance credited to capital reserve)			

3.	Capital reserve A/c	Dr.	23,000	
	To Bank A/c			23,000
	(Expenses for take over debited to capital reserve)			
4.	M/s 3R Enterprises A/c	Dr.	42,00,000	
	To Equity share capital A/c			42,00,000
	(Allotment of fully paid equity shares to discharge consideration for business)			
5.	Preliminary expenses A/c	Dr.	57,000	
	To Bank A/c			57,000
	(Expenses incurred to get the incorporated)			

3. (a) Balance Sheet as on 30.6.2010

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			Machinery	1,50,000	
A's balance as 1.1.2010	1,17,000		*Less*: Depreciation @ 10% p.a.	(7,500)	1,42,500
Add: Profit for 6 months	11,800		Leasehold premises	34,000	
	1,28,800		*Less*: Written-off @ 5%	(1,700)	32,300
Less: Drawings for 6 months	(5,900)	1,22,900	Stock		75,000
B's balance as 1.1.2010	1,11,000		Sundry Debtors		60,000
Add: Profit for 6 months	11,800				
	1,22,800				
Less: Drawings for 6 months	(5,900)	1,16,900			
Sundry Creditors		50,000			
Bank overdraft		20,000			
		3,09,800			3,09,800

(b) Realisation Account

	Particulars	₹		Particulars	₹
To	Machinery A/c	1,42,500	By	Sundry Creditors A/c	50,000
To	Leasehold Premises A/c	32,300	By	Bank Overdraft A/c	20,000
To	Stock A/c	75,000	By	Limited Company A/c (W.N.2)	3,39,800

To Sundry Debtors A/c	60,000		
To A's Capital A/c	50,000		
To B's Capital A/c	50,000		
	4,09,800		4,09,800

(c) Partners' Capital Accounts

Date	Particulars	A	B	Date	Particulars	A	B
		`	`			`	`
1.1.10	To Profit & Loss A/c	13,000	13,000	1.1.10	By Balance b/d	1,40,000	1,30,000
	To Drawings A/c	10,000	6,000				
29.6.10	To Balance c/d	1,17,000	1,11,000				
		1,40,000	1,30,000			1,40,000	1,30,000
30.6.10	To Drawings A/c	5,900	5,900	30.6.10	By Balance b/d	1,17,000	1,11,000
	To Shares Limited Company A/c	1,72,900	1,66,900	30.6.10	By Profit & Loss Appropriation A/c	11,800	11,800
					By Realisation A/c	50,000	50,000
		1,78,800	1,72,800			1,78,800	1,72,800

Working Notes:

(1) Ascertainment of profit for the 6 months ended 30th June, 2010

Closing Assets:	`	`
Stock		75,000
Sundry Debtors		60,000
Machinery less depreciation		1,42,500
Leasehold premises less written off		32,300
		3,09,800
Less: Closing liabilities:		
Sundry Creditors	50,000	
Bank overdraft	20,000	(70,000)
Closing Net Assets		2,39,800
Less: Opening combined capital:		
A – ` (1,40,000 – 13,000 – 10,000)	1,17,000	
B – ` (1,30,000 – 13,000 – 6,000)	1,11,000	(2,28,000)

Profit before adjustment of drawings		11,800
Add: Combined drawings during the 6 months (equal to profit)		<u>11,800</u>
Profit for 6 months		<u>23,600</u>

(2) Ascertainment of purchase consideration:

Closing net assets (as above) ` 2,39,800 + Goodwill ` 1,00,000 = ` 3,39,800.

4. Journal Entries

			`	`
April, 2010	Employees Compensation Expense A/c	Dr.	22,50,000	
	To Employees Stock Options Outstanding A/c			22,50,000
	(Grant of 25,000 stock options ` 50 when the market price is `140)			
1st Jan. 2011 to 28th Feb. 2011	Bank A/c	Dr.	12,00,000	
	Employees Stock Options Outstanding A/c	Dr.	21,60,000	
	To Equity Share Capital A/c			2,40,000
	To Securities Premium A/c			31,20,000
	(Allotment of 24,000 equity shares `10 each at a premium of `130 per share to the employees)			
Mar. 1	Employees Stock Options Outstanding A/c	Dr.	90,000	
	To Employee Compensation Expense A/c			90,000
	(Lapse of stock options for shares)			
Mar 31	Profit and Loss A/c	Dr.	21,60,000	
	To Employees Compensation Expense A/c			21,60,000
	(For transfer of compensation expense to profit and loss account)			

5. **Journal Entries**

			`	`
1.	Bank A/c	Dr.	10,00,000	
	To 11% Preference share application & allotment A/c			10,00,000
	(Being receipt of application money preference shares)			
2.	11% Preference share application allotment A/c	Dr.	10,00,000	
	To 11% Preference Share Capital A/c			10,00,000
	(Being allotment of 1 lakh prefe shares)			
3.	Securities Premium A/c	Dr.	16,00,000	
	General Reserve A/c	Dr.	14,00,000	
	To Capital Redemption Reserve A/c			30,00,000
	(Being creation of capital redempt reserve for buy back of shares)			
4.	Equity share capital A/c	Dr.	40,00,000	
	General reserve A/c	Dr.	48,00,000	
	To Equity shareholders / Shares buy back A/c			88,00,000
	(Amount payable to equity shareholder on buy back)			
5.	Equity shareholders/ Equity Shares back A/c	Dr.	88,00,000	
	To Bank A/c			88,00,000
	(Being payment made for buy back shares)			

Working Notes:

1. Calculation of amount used from General Reserve Account

	`
Amount paid for buy back of shares (4,00,000 shares x `22)	88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x `10)	(10,00,000)

Less: Utilisation of Securities Premium Account	(16,00,000)
Balance used from General Reserve Account	62,00,000

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

Note: It is assumed that the buy-back of 4,00,000 equity shares is within the prescribed 25% limit of total equity shares.

6. Statement showing liability of underwriters

				(In shares)
	P	Q	R	Total
Gross liability	60,000	25,000	15,000	1,00,000
Less : Unmarked applications (85,000-45,000)	(24,000)	(10,000)	(6,000)	(40,000)
	36,000	15,000	9,000	60,000
Less : Marked applications	(19,000)	(20,000)	(6,000)	(45,000)
	17,000	(5,000)	3,000	15,000
Excess of Q distributed to P and R in the ratio of 60:15	(4,000)	5,000	(1,000)	-
	13,000	-	2,000	15,000
Add: Firm underwriting	5,000	4,000	3,000	12,000
Final/Total liability of the underwriters	18,000	4,000	5,000	27,000

7. 5% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
2011			2011		
Dec. 31	To Sinking Fu Investment (Ow Deb.)	1,00,000	Jan. 1	By Balance b/d	8,00,000
Dec. 31	To Bank	7,00,000			
		8,00,000			8,00,000

Sinking Fund Account

Date	Particulars	`	Date	Particulars	`
2011			2011		
Dec. 31	To Sinking Fund Investment (3% war loan)	3,200	Jan. 1	By Balance b/d	7,49,000
			Dec. 31	By Bank (Interest on War loan)	19,800
Dec. 31	To General Reserve	8,00,000		By Interest on own Debentures	5,000
				By P & L Appropriation A/c	28,400
				By Sinking Fund Investment (Own Debentures) A/c	1,000
		8,03,200			8,03,200

Sinking Fund Investments Accounts

(Own Debentures)

Date	Particulars	`	Date	Particulars	`
2011	To Balance b/d		2011		
Jan. 1	(F.V. ` 1,00,000)	99,000	Dec. 31	By 5% Debentures A/c	1,00,000
	To Sinking Fund A/c	1,000			
		1,00,000			1,00,000

Sinking Fund Investments Account

(3% War Loan Account)

Date	Particulars	`	Date	Particulars	`
2011			2011		
Jan. 1	To Balance b/d (7,49,000 – 99,000)	6,50,000	Dec. 31	By Bank	6,46,800*
				By Sinking Fund A/c	3,200
		6,50,000			6,50,000

* Amount realized from sale of investments @ 98% (` 6,60,000 x 0.98 = ` 6,46,800).

8. Calculation of Intrinsic Value of Shares of West India Motels Ltd.

		₹
Goodwll		3,20,00,000
Buildings		11,20,00,000
Machinery		1,60,00,000
Sundry Debtors		5,60,00,000
Stock/Inventory		2,00,00,000
Cash		40,00,000
		24,00,00,000
Less: Creditors	4,80,00,000	
Debentures	9,60,00,000	(14,40,00,000)
Net assets available for shareholders		9,60,00,000
Share Capital		6,00,00,000
Paid-up value per share		₹ 5
Number of shares $\left(\frac{\text{₹ } 6,00,00,000}{\text{₹ } 5}\right)$		1,20,00,000
Initial value per share $\left(\frac{\text{₹ } 9,60,00,000}{1,20,00,000}\right)$		₹ 8

Calculation of Intrinsic Value of Shares of All India Motels Ltd.

		₹
Goodwill		4,48,00,000
Buildings		11,60,00,000
Machinery		1,80,00,000
Sundry Debtors		60,00,000
Stock/Inventory		80,00,000
Cash		32,00,000
Investments		2,60,00,000
		22,20,00,000
Less: Debentures	8,00,00,000	
Sundry Creditors	2,20,00,000	(10,20,00,000)
Value of Net assets available for shareholders		12,00,00,000

Paid-up value per share		₹ 8
Share Capital		6,00,00,000
Number of shares (₹ 6,00,00,000 ÷ 8)		75,00,000
Intrinsic value per share $\left(\frac{₹\ 12,00,00,000}{75,00,000}\right)$		₹ 16

Intrinsic value of Rs. 8 paid up value per share is ₹16. Therefore, intrinsic value of ₹ 10 paid up share will be ₹ 20 $\left(\text{i.e., } \frac{16}{8} \times ₹\ 10\right)$.

Calculation of purchase consideration

Total number of shares of West India Motels Ltd.	1,20,00,000 shares
Intrinsic value of 1,20,00,000 shares @ ₹ 8	₹ 9,60,00,000
Shares to be issued by All India Motels Ltd. @ ₹ 20	48,00,000 shares

In the Books of All India Motels Ltd.

Journal Entries

Date	Particulars		Dr.	Cr.
			Amount	Amount
2011			₹	₹
	Business Purchase A/c	Dr.	9,60,00,000	
	To Liquidators of West India Ltd.			9,60,00,000
	(Being business purchased)			
March 31	Goodwill (Bal. fig.)	Dr.	3,20,00,000	
	Buildings A/c	Dr.	11,20,00,000	
	Machinery A/c	Dr.	1,60,00,000	
	Sundry Debtors A/c	Dr.	5,60,00,000	
	Stock A/c	Dr.	2,00,00,000	
	Cash A/c	Dr.	40,00,000	
	To Debentures A/c			9,60,00,000
	To Creditors A/c			4,80,00,000
	To Business Purchase A/c			9,60,00,000
	(Being assets and liabilities of West Motels Ltd. taken over)	I		

	Liquidators of West India Motels Ltd.	Dr.	9,60,00,000	
	To Share Capital A/c			4,80,00,000
	To Securities Premium A/c			4,80,00,000
	(Being payment of purchase price by issue of 48,00,000 shares of ` 10 each at a premium of ` 10 per share)			
	Sundry Creditors A/c	Dr.	30,00,000	
	To Sundry Debtors A/c			30,00,000
	(Being the adjustment of mutual indebtedness)			
	Goodwill A/c	Dr.	5,00,000	
	To Stock A/c			5,00,000
	(Being the adjustment of unrealized profit o stock = R` 30,00,000 x $\frac{20}{120}$)			

9. Journal Entries

	`	`
6% Preference Share Capital A/c Dr.	50,000	
To Capital Reduction A/c		50,000
(Being Preference Shares of 100 each reduced ` 75 as per reconstruction scheme)		
Equity Share Capital A/c Dr.	6,00,000	
To Capital Reduction A/c		6,00,000
(Being equity shares of 10 reduced to` 2 as pe reconstruction scheme)		
Capital Reduction A/c Dr.	12,000	
To Equity Share Capital A/c		12,000
(Arrears of Preference Share dividend ` 48,000 for 4 years are to be satisfied by issue of` 12,000 equity shares to the extent of 25% of ` 48,000)		
Accrued Debentures Interest A/c Dr.	22,500	
To Bank		22,500
(Accrued debenture interest paid)		

6% Debentures A/c	Dr.	1,50,000	
To Freehold Property A/c			1,50,000
(Claim of debentureholders settled in part in respect principal amount by transfer of freehold property as reconstruction scheme)			
Bank A/c	Dr.	1,30,000	
To 10% Debentures A/c			1,30,000
(10% Debentures issued for cash)			
Freehold Property A/c	Dr.	2,00,000	
To Capital Reduction A/c			2,00,000
(Remaining freehold properties revalued)			
Bank A/c	Dr.	1,50,000	
To Trade Investments			60,000
To Capital Reduction A/c			90,000
(Trade investment sold and profit credited to Reduction A/c)			
Directors' Loan A/c	Dr.	2,00,000	
To Equity Share Capital A/c			1,80,000
To Capital Reduction A/c			20,000
(Directors' Loan discharged by issue of share capital and the balance transferred to Capital Reduction A/c)			
Capital Reduction A/c	Dr.	15,000	
To Bank			15,000
(Payment of cancellation of capital commitments)			
Capital Reduction A/c	Dr.	9,33,000	
To Profit & Loss A/c			3,50,000
To Deferred Advertising Expenses A/c			1,50,000
To Stock A/c			2,00,000
To Provision for doubtful debts A/c			2,33,000
(Being the various assets written off as per reconstructi scheme)			

Balance Sheet of Assurance & Co. (As reduced) as on 1st April, 2011

Liabilities	`	Assets	`
Share Capital:		Fixed Assets	
1,71,000 Equity Shares of ` 2 each		Freehold Property	4,00,000
	3,42,000	Plant	50,000
[of the above 90,000 shares have been issued for consideration other than cash]		Current Assets, Loans & Advances	
		Debtors (4,00,000- 2,33,000)	1,67,000
2,000 6% Cum. Shares of ` 75 each fully paid	1,50,000	Cash at Bank (1,30,000 + 1,50,000 – 22,500 – 15,000)	2,42,500
Reserves & Surplus	-		
Secured Loans:			
6% Debentures	2,25,000		
10% Debentures	1,30,000		
Current Liabilities:			
Creditors	12,500		
	8,59,500		8,59,500

10. Statement showing liability of B List Contributories

Name shareholders	Shares	Maximum liability @ ` 2	3.5.2010	1.9.2010	23.11.10	1.2.11	Total
		`	`	`	`	`	`
B	1,500	3,000	1,500	-	-	-	1,500
C	1,000	2,000	1,000	555	-	-	1,555
D	500	1,000	500	278	188	-	966
E	300	600	300	167	112	21	600
	3,300	6,600	3,300	1,000	300	21	4,621

Working Notes:

1. **Ratio of distribution**

Date	Cumulative liability	Increase in liability	Ratio for distribution as per the maximum liability
3-5-2010	3,300	-	30:20:10:6
1-9-2010	4,300	1,000	20:10:6
23-11-2010	4,600	300	10:6
1-2-2011	6,000	1,400	Only E

2. Liability of shareholder ‘E’ is restricted to ` 600. Therefore, the amount payable by ‘E’ on 1.2.2011 is restricted to ` 21 only.

3. Shareholder ‘A’ is not liable as he had transferred his shares prior to one year preceding the date of winding up.

11. National Bank Limited

Profit and Loss account for the year ended 31st March, 2011

		Schedule No.	**Year ended 31.3.2011**
			`
I.	Income		
	Interest earned	13	74,03,000
	Other income	14	9,10,000
			83,13,000
II.	Expenditure		
	Interest expended	15	40,74,000
	Operating expenses	16	9,10,000
	Provisions and contingencies (W.N.2)		26,00,000
			75,84,000
III.	Profit		
	Net profit for the year		7,29,000
	Profit brought forward		-
			7,29,000

IV.	Appropriations		
	Transfer to Statutory Reserve		1,82,250
	Proposed dividend		2,00,000
	Balance carried over to balance sheet		3,46,750
			7,29,000

Schedule 13 – Interest earned

	`
Interest and discount earned (W.N.1)	74,03,000
	74,03,000

Schedule 14 - Other Income

	`
Commission, exchange and brokerage	3,80,000
Profit on sale of investment	4,00,000
Rent	1,30,000
	9,10,000

Schedule 15-Interest Expended

	`
Interest paid on deposits	40,74,000
	40,74,000

Schedule 16-Operating Expenses

	`
Payment and provisions for employees	4,00,000
Rent and taxes paid	1,80,000
Depreciation on bank's property	60,000
Directors' fees and allowances	60,000
Auditors' fees	10,000
Law charges	80,000
Postage and Telegrams	1,20,000
	9,10,000

Working Notes:

			`
1.	**Calculation of interest earned**		
	Interest and discount received		74,11,000
	Add: Rebate on bills discounted as on 31st March, 2010		24,000
			74,35,000
	Less: Rebate on bills discounted as on 31st March, 2011		(32,000)
			74,03,000
2.	**Provisions and Contingencies**		
	Provision for doubtful debts:		
	Doubtful debts due to insolvency of a custom (50% of ` 20 lakhs)	10,00,000	
	Provision for other debts	3,00,000	13,00,000
	Provision for income tax		13,00,000
			26,00,000

12. **Goodluck General Insurance Company**

Fire Revenue Account for the year ended 31st March, 2011

	Schedule	**Current year** `
Premium earned (Net)	1	10,23,500
Total (A)		10,23,500
Claims incurred (net)	2	3,80,000
Commission	3	21,000
Operating expenses relating to insurance business	4	2,90,000
Total (B)		6,91,000
Operating Profit from General Insurance Bus C=(A)-(B)		3,32,500
Appropriations:		
Transfer to shareholders' accounts		3,32,500

Schedule 1: Premium Earned (Net)

			`
Premium received less reinsurance			12,10,000

Adjustment for change in reserve unexpired risk:			
Total opening provisions		6,00,000	
Closing provision:			
50% of net premium	6,05,000		
Additional provision @ 15%	1,81,500	(7,86,500)	(1,86,500)
Premium Earned (Net)			10,23,500

Schedule 2: Claims Incurred (Net)

	`
Claims paid	2,80,000
Add: Claims outstanding at the end of the year	2,00,000
	4,80,000
Less: Claims outstanding at the beginning of the year	(1,00,000)
	3,80,000

Schedule 3: Commission

	`
Commission paid	80,000
Less: Commission earned in reinsurance ceded	(59,000)
	21,000

Schedule 4: - Operating expenses relating to insurance business

Expenses of management	` 2,90,000

13. Calculation of Reasonable Return

	`
10% (Bank rate 8% +2%) of capital base	87,40,000
8% on Reserve fund investments	9,60,000
½% on Loan from State Electricity Board	50,000
½% on 11% Debentures	4,000
½ on Development reserve	16,000
	97,70,000
Surplus:	
Clear Profit – Reasonable return (` 1,20,00,000-97,70,000)	` 22,30,000

20% of Reasonable Return	` 19,54,000
whichever is less is for disposal as surplus i.e.	` 19,54,000

Statement showing disposal of surplus

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

14. Departmental Trading and Profit & Loss Account of M/s Division

For the year ended 31st December, 2011

	Deptt. A	Deptt. B		Deptt. A	Deptt. B
	`	`		`	`
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit transferred to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	`		`
To Stock reserve required (additional)		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (` 20,000 - ` 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (` 30,000 - ` 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		10,25,000

Working Notes:

1. Stock of department A will be adjusted according to the rate applicable to department B = [(7,50,000 ¸ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ¸ 10,00,000) x 100] = 40%

15. **In the books of the Branch**

Journal Entries

			`	`
(i)	Head Office Expenses A/c	Dr.	35,000	
	To Head Office A/c			35,000
	(Expenses allocated by the Head Office)			
(ii)	Depreciation of Fixed Assets A/c	Dr.	15,000	
	To Head Office A/c			15,000
	(Depreciation on fixed assets whose accounts maintained by the Head Office)			
(iii)	Head Office A/c	Dr.	40,000	
	To Salaries A/c			40,000
	(Rectification of errors regarding salary paid to head office official)			
(iv)	Head Office A/c	Dr.	30,000	
	To Debtor A/c			30,000
	(Amount directly collected by head office from a branc debtor)			
(v)	No entry will be passed in the books of the Branch			

Note: It is presumed that Universal Ltd. has an independent branch which maintains comprehensive books of account for recording their transactions.

16. **In the books of Head Office**

Kolkata Branch Trading and Profit & Loss Account

For the year ending 31-3-2011

	`	`		`	`
To Goods supplied by			By Sales:		
Head Office		20,000	Cash	4,600	
Purchases:			Credit	25,000	29,600
Cash	15,500		By Closing Stock		12,000
Credit	3,000	18,500			
To Gross Profit c/d		3,100			
		41,600			41,600
To Expenses		8,950	By Gross Profit b/d		3,100
To Depreciation on Furniture		175	By Net Loss transferred to General Profit and and Loss A/c		6,025
		9,125			9,125

Kolkata Branch Account

	`		`	`
To Cash	4,000	By Furniture		3,500
To Goods Sent to Branch	20,000	By Remittance	11,000	
To Branch Furniture	175	*Less*: In transit	2,000	9,000
		By General Profit and Loss A/c		6,025
		By Balance c/d		
		(15,850 – 10,200)		5,650
	24,175			24,175

Note:

1. Sundry Assets = Closing Stock ` 12,000 + Cash in transit` 2,000+Cash in hand ` 1,850 [i.e. 4,000 +4,600 + 30,400 – 14,200 – 8,950 – 3,000 – 11,000] = ` 15,850.
2. Liabilities = Sundry Creditors ` 1,300 (i.e. 15,500 – 14,200) + Creditors for furniture ` 3,500 + Advance from Debtors ` 5,400 (i.e. ` 30,400 – ` 25,000) = ` 10,200.

17. **(a)** Para 3.2 of AS 4 (Revised) on Contingencies and Events Occurring after the Balance Sheet Date defines 'events occurring after the balance sheet date' as 'significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors in the case of a company'. The given case is discussed in the light of the above mentioned definition and requirements given in paras 13-15 of the said AS 4 (Revised).

In this case the incidence, which was expected to push up cost by ₹ 80 lakhs became evident after the date of approval of the accounts. So that was not an 'event occurring after the balance sheet date'. However, this may be mentioned in the Directors' Report.

(b) The error in the recording of closing stock of the year ended 31st March, 2010 must have also resulted in overstatement of profits of previous year, brought forward to the current year ended 31st March, 2011. Vide para 4 of AS 5 (Revised) 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the rectifications is required in the current year as 'Prior Period Item'. Accordingly, ₹ 20,000 should be deducted from opening stock in the trading account and should be charged as prior period adjustment in the profit and loss account for the year ended 31st March 2011 in accordance with para 15 of AS 5 (Revised) which requires that the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

18. (a) As per para 13 of AS 11 (Revised 2003) 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or expense in the period in which they arise. Thus, exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are recognized as income or expense.

Calculation of Exchange Difference:

$$\text{Foreign currency loan} = \frac{₹\ 3{,}000 \text{ lakhs}}{₹\ 40} = 75 \text{ lakhs US Dollars}$$

Exchange difference = 75 lakhs US Dollars x (42.50 – 40.00)

= ₹ 187.50 lakhs

(including exchange loss on payment of first instalment)

Therefore, entire loss due to exchange differences amounting ₹ 187.50 lakhs should be charged to profit and loss account for the year.

(b) As per para 8 of AS 12 'Accounting for Government Grants', two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives.

According to the first alternative, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Therefore, on the basis of this alternative, the cost of special purpose machinery will be recorded in the books after reducing it by the amount of government subsidy of ` 25 lakhs. Thus, the depreciable value of the machinery recorded in the books will be ` 75 lakhs (i.e. ` 1 crore – ` 25 lakhs). Depreciation of ` 9.375 lakhs (i.e. ` 75 lakhs / 8 years) will be charged on it every year on straight line method.

Under the second alternative, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged.

Accordingly, machinery will be recorded in the books by ` 1 crore and depreciation will be charged on it for ` 12.5 lakhs (i.e. ` 1 crore / 8 years) per year on straight line method. Government subsidy of ` 25 lakhs will be treated as deferred income which will be recognized as income in the statement of profit and loss every year by ` 3.125 lakhs (i.e. ` 25 lakhs / 8 years).

19. (a) According to para 19 of AS 16 'Borrowing Costs', capitalisation of borrowing costs should cease when substantially all the activities to prepare the qualifying asset for its intended use or sale are completed.

In the given case, since the qualifying asset was ready to use in January, 2011, therefore, interest till that date can only be capitalized. Hence, interest of ` 18 lakhs will only be capitalized. The balance of ` 7 lakhs (i.e. 25-18) will be debited to Profit and Loss Account.

(b) (i) Computation of annual lease payment to the lessor

	`
Cost of equipment	10,00,000
Unguaranteed residual value	1,00,000
Present value of residual value after third year @ 10% (` 1,00,000 × 0.7513)	75,130
Fair value to be recovered from lease (` 10,00,000 – ` 75,130)	9,24,870
Present value of annuity for three years is 2.4868	
Annual lease payment = ` 9,24,870/ 2.4868	3,71,911.70

The present value of lease payment i.e., ` 9,24,870 equals 92.48% of the fair market value i.e., ` 10,00,000. As the present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) covers the major part of the life of asset (i.e. 5 years). Therefore, it constitutes a finance lease.

(ii) Computation of Unearned Finance Income

	`
Total lease payments (` 3,71,911.70 x 3)	11,15,735
Add: Unguaranteed residual value	1,00,000
Gross investment in the lease	12,15,735
Less: Present value of investment (lease payments and residual value) (` 75,130 + ` 9,24,870)	(10,00,000)
Unearned finance income	2,15,735

20. (a) As per para 58 of AS 26 'Intangible assets', expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date.

Hence, AIIMS cannot capitalize ` 4 crores, which was spent and charged as an expense in the earlier years.

(b) Computation of weighted average number of shares outstanding during the period

Date	No. of equity shares	Period outstanding	Weights (months)	Weighted average number of shares
(1)	(2)	(3)	(4)	(5) = (2) x (4)
1st April, 2009	1,500 (Opening)	12 months	12/12	1,500
1st August, 2009	600 (Additional issue)	8 months	8/12	400
31st March, 2010	500 (Buy back)	0 months	0/12	-
Total				1,900

$$\text{Basic Earnings Per Share} = \frac{\text{Net Profit or Loss for the period attributable to Equity Shareholders}}{\text{Weighted Average Number of Equity Shares outstanding during the period}}$$

$$= \frac{\text{` } 2{,}75{,}000}{1{,}900 \text{ shares}} = \text{` } 144.74$$

(c) A provision should be recognised only when an enterprise has a present obligation as a result of a past event. In the given case, there is no present obligation, therefore no provision is recognized as per AS 29 'Provisions, Contingent Liabilities and Contingent Assets'.

The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprises can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

Appendix

Announcements and Notifications applicable for November, 2011 examination

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

As per the announcement issued by the Accounting Standard Board of the ICAI regarding applicability of AS 30 (dated 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.

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

Ministry of Corporate Affairs vides 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.

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

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

PAPER – 5 : ADVANCED ACCOUNTING

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.

Note: Accounting Standards 4, 5, 11, 12, 16, 19, 20 26, 29 are covered in the syllabus.

Non- applicability of Announcements and Notifications for November, 2011 examination

1. The MCA has issued 35 converged Indian Accounting Standards (Ind AS) without announcing the applicability date. These are the standards which are being converged by eliminating the differences of the Indian Accounting Standards vis-à-vis IFRS. These standards shall be applied for all companies falling under Phase I to Phase III as prescribed under the roadmap issued by the core group. **These Ind ASs are not applicable for the students appearing in November, 2011 Examination.**

2. 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 0.251.00 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 i 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

3. **Non-applicability of Revised Schedule VI for November 2011 Examination**

This is to bring to the attention of students that a decision has been taken to defer the applicability of the Revised Schedule VI for CA examination, consequent to which the same will not be applicable for IPCC examinations to be held in November, 2011.

PAPER – 5 : ADVANCED ACCOUNTING

QUESTIONS

Accounting for Redemption of Debentures

1. The authorized capital of a company consists of 4,00,000 equity shares of Rs.10 each. But of these 1,20,000 shares have been issued as fully paid.

   The company has an outstanding 14% Debentures loan of Rs.12,00,000 redeemable at 102 per cent and interest has been paid up to date on December 31, 2008. On that date, the balance of the Debenture Redemption Reserve Account is Rs.10,00,000 and that out corresponding Investment Account Rs.10,00,000 (at cost) of which the market value is Rs.9,00,000.

   The directors resolved to redeem the Debentures on January 1, 2009 and the holders are given an option to receive payment either wholly in cash or wholly in fully paid equity shares @ 8 shares for every Rs.100 of debentures.

   75% of the holders decided to exercise the option for taking shares in repayment and cash for the rest is procured by realizing an adequate amount of investment at the prevailing market value.

   Draw up journal entries (including Cash Book Entries) to give effect to the above transactions.

Departmental Accounts

2. A firm had two departments, cloth and readymade clothes. The readymade clothes were made by the firm itself out of cloth supplied by the cloth department at its usual selling price. From the following figures, prepare departmental Trading and Profit and Loss Accounts for the year ended 31st March, 2009 :

		Cloth Department Rs.	*Readymade Clothes Rs.*
Opening Stock on 1st April, 2008		3,00,000	50,000
Purchases		20,00,000	15,000
Sales		22,00,000	4,50,000
Transfer to Readymade Clothes Department		3,00,000	--
Expenses -	Manufacturing	--	60,000
	Selling	20,000	6,000
Stock on 31st March, 2009		2,00,000	60,000

The stocks in the readymade clothes department may be considered as consisting of 75% cloth and 25% other expenses. The Cloth Department earned gross profit at the rate of 15% in 2008-09. General Expenses of the business as a whole came to Rs. 1,01,000.

Amalgamation of Companies

3. The Balance Sheets of A Co. Ltd. and B Co. Ltd., as on 31st October, 2009 are as follows:

Balance Sheet of A Co. Ltd.

Liabilities		*Rs.*	*Assets*		*Rs.*
Share Capital: Authorised Capital:			Fixed Assets:		
			Goodwill	80,000	
10,000 shares of Rs.100 each		10,00,000	Others	8,00,000	8,80,000
Issued Capital:			Current assets, loans and advances		9,00,000
10,000 shares of Rs.100 each fully paid		10,00,000			
Reserves and Surplus:					
Capital reserve	2,00,000				
General reserve	70,000	2,70,000			
Unsecured loans		2,00,000			
Current liabilities and provisions:					
Sundry Creditors		3,10,000			
		17,80,000			17,80,000

Balance Sheet of B Co. Ltd.

Liabilities	*Rs.*	*Assets*		*Rs.*
Share Capital:		Fixed Assets		16,00,000
Authorised Capital:		Current assets, loans and advances:		
2,00,000 shares of Rs.10 each	20,00,000	Bank	2,00,000	
Issued Capital:		Others	6,60,000	8,60,000
80,000 shares of Rs.10 each fully paid	8,00,000			
Reserves and Surplus:				
General reserve	8,00,000			
Secured Loans	5,00,000			
Current liabilities and provisions:				
Sundry Creditors	3,60,000			
	24,60,000			24,60,000

It was proposed that A Co. Ltd., should be taken over by B Co. Ltd. The following arrangement was accepted by both the companies:

(a) Goodwill of A Co. Ltd., is considered valueless.

(b) Arrears of depreciation in A Co. Ltd. amounted to Rs.40,000.

(c) The holder of every 2 shares in A Co. Ltd., was to receive:

   (i) as fully paid at par, 10 shares in B Co. Ltd., and

   (ii) so much cash as is necessary to adjust the right of shareholders of both the companies in accordance with the intrinsic value of the shares as per their balance sheets subject to necessary adjustment with regard to goodwill and depreciation in A Co. Ltd.'s Balance Sheet.

You are required to:-

(a) Determine the composition of purchase consideration; and

(b) Show the Balance Sheet after absorption.

Branch Accounts

4. Kashi Cloth Mills opened a branch at Delhi on 1st April, 2008. The goods were invoiced to the branch at selling price which was 125% of the cost to the head office.

The following are the particulars of the transactions relating to branch during the year ended 31st March, 2009:

		Rs.
Goods sent to branch at cost to head office		28,08,400
Sales:	*Rs.*	
Cash	12,50,700	
Credit	17,74,300	30,25,000
Cash collected from debtors		15,70,000
Discount allowed to debtors		15,700
Returns from debtors		10,000
Spoiled cloth in bales written off at invoice price		5,000
Cheques sent to branch for:	*Rs.*	
Rent	72,000	
Salaries	1,80,000	
Other Expenses	35,000	2,87,000

Prepare Branch Account ascertaining profit for the year ended 31st March, 2009 after preparing Memorandum Branch Stock account and Memorandum Branch Debtors Account.

Accounting for Employees Stock Option Plan

5. At the beginning of year 1, an enterprise grants 300 options to each of its 1,000 employees. The contractual life (comprising the vesting period and the exercise period) of options granted is 6 years. The other relevant terms of the grant are as below:

Vesting Period	3 years
Exercise Period	3 years
Expected Life	5 years
Exercise Price	Rs. 50
Market Price	Rs. 50
Expected forfeitures per year	3%

The fair value of options, calculated using an option pricing model, is Rs. 15 per option. Actual forfeitures, during the year 1, are 5 per cent and at the end of year 1, the enterprise still expects that actual forfeitures would average 3 per cent per year over the 3-year vesting period. During the year 2, however, the management decides that the rate of forfeitures is likely to continue to increase, and the expected forfeiture rate for the entire award is changed to 6 per cent per year. It is also assumed that 840 employees have actually completed 3 years vesting period.

200 employees exercise their right to obtain shares vested in them in pursuance of the ESOP at the end of year 5 and 600 employees exercise their right at the end of year 6. Rights of 40 employees expire unexercised at the end of the contractual life of the option, i.e., at the end of year 6. Face value of one share of the enterprise is Rs. 10.

Liquidation of Companies

6. The following is the Balance Sheet of Confidence Builders Ltd., as on 30th September, 2009:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital :		Land and Buildings	1,20,000
Issued : 11% Preference		Sundry Current Assets	3,95,000
Shares of Rs. 10 each	1,00,000	Profit & Loss Account	38,500
10,000 Equity Shares of Rs. 10 each, fully paid up	1,00,000	Debenture Issue Expenses not written off	2,000
5,000 Equity shares of Rs. 10 each, Rs. 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, 2009)			
Assessment Yr. 2007-08	21,000		
Assessment Yr. 2008-09	5,000	26,000	
		5,55,500	5,55,500

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 Rs. 1,50,000. He also took charge of sundry assets of the value of Rs. 2,40,000 and realised Rs. 2,00,000. The Liquidator realised Rs. 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 Rs. 2,000 and by the Liquidator Rs. 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. Preferenc e shareholders had not been paid dividend for the period after 30th September, 2007 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

7. From the following particulars, you are required to compute the amount of provision to be shown in the profit and loss account of ABC Bank Limited.

	Rs. in lakhs
Standard Assets	5,000
Sub-standard Assets	1,200
Doubtful assets not covered by security	200
Doubtful assets covered by security	
upto 1 year	500
upto 3 years	300
upto 4 years	300
Loss Assets	200

8. The following particulars are extracted from the (Trial Balance) Books of the M/s Commercial Bank Ltd. for the year ending 31st March, 2009:

		Rs.
(i)	Interest and Discounts	1,96,62,400
(ii)	Rebate on Bills Discounted (balance on 1.4.2008)	65,040
(iii)	Bills Discounted and purchased	67,45,400

It is ascertained that proportionate discount not yet earned on the Bills Discounted which will mature during 2009-2010 amounted to Rs. 92,760.

Pass the necessary Journal entries with narration adjusting the above and show:

(a) Rebate on Bills Discounted Account; and

(b) Interest and Discount Account in the ledger of the Bank.

Financial Statements of Insurance Companies

9. From the following information as on 31st March, 2009, prepare the Revenue Accounts of Sagar Bhima Co. Ltd. engaged in Marine Insurance Business:

	Particulars	*Direct Business (Rs.)*	*Re-insurance (Rs.)*
I.	Premium :		
	Received	24,00,000	3,60,000
	Receivable – 1st April, 2008	1,20,000	21,000
	– 31st March, 2009	1,80,000	28,000
	Premium paid	2,40,000	–
	Payable – 1st April, 2008	–	20,000
	– 31st March, 2009	–	42,000
II.	Claims :		
	Paid	16,50,000	1,25,000
	Payable – 1st April, 2008	95,000	13,000
	– 31st March, 2009	1,75,000	22,000
	Received	–	1,00,000
	Receivable – 1st April, 2008	–	9,000
	– 31st March, 2009	–	12,000
III.	Commission :		
	On Insurance accepted	1,50,000	11,000
	On Insurance ceded	–	14,000

Other expenses and income:

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

Balance of Fund on 1st April, 2008 was Rs. 26,50,000 including Additional Reserve of Rs. 3,25,000. Additional Reserve has to be maintained at 5% of the net premium of the year.

Financial Statements of Electricity Companies

10. The Alpha Electricity Company Limited decided to replace one of its old plants with a modern one with a larger capacity. The plant when installed in 1960 cost the company Rs. 30 lakhs, the components of materials, labour and overheads being in the ratio of 3 : 2 : 1. It is ascertained that the costs of materials and labour have gone up by 25% and 50% respectively. The proportion of overheads to total costs is expected to remain the same as before.

    The cost of the new plant as per improved design is Rs. 75 lakhs and in addition, material recovered from the old plant of a value of Rs. 3,60,000 has been used in the construction of the new plant. The old plant was scrapped and sold for Rs. 9,00,000.

    The Accounts of the company are maintained under Double Account system. Indicate how much would be capitalised and the amount that would be charged to revenue. Show the Ledger Accounts.

11. Alpha Electricity Company provides you the following informations:

	Rs. in lakhs
Fixed Assets (Original Cost)	200.00
Depreciation Reserve on Fixed Assets	50.00
Customers' contribution towards fixed assets	1.00
Intangible Assets	6.00
Intangible Assets written off	1.00
Average of Current Assets	20.00
5% Contingency Reserve Investments	10.00
4½% Reserve Fund Investments	50.00
(a) Loan from Electricity Board	30.00
(b) Loan from Approved Institution	10.00
8% Debentures	20.00
Development Reserve	10.00

Security Deposit	55.00
Tariff and Dividend Control Reserve	4.00
Licencee's A/c	1.00
Net profit before interest on Debentures for the year ended 31st March, 2008	7.90
Reserve Bank Rate	5%

You are required:

(a) Calculate Capital Base, Reasonable Return & Total Surplus if available.

(b) Prepare the Statement showing the Disposal of Profits

(c) Give the necessary journal entries, if any required.

Underwriting of shares

12. 'X' Ltd., issued 1,00,000 equity shares of Rs.10 each at par. The entire issue was underwritten as follows:

    A – 60,000 shares (Firm underwriting 8,000 shares)

    B- 30,000 shares (Firm underwriting 10,000 shares)

    C- 10,000 shares (Firm underwriting 2,000 shares)

    The total applications including firm underwriting were for 80,000 shares.

    The marked applications were as follows:

    A- 20,000 shares; B- 14,000 shares; C-6,000 shares.

    The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten. Determine the liability of each underwriter.

Internal Reconstruction of a Company

13. The following is the Balance Sheet of X Ltd. as on 31st March, 2009:

Liabilities	*Rs.*	*Assets*	*Rs.*
12,000- 10% preference share of Rs.100 each	12,00,000	Goodwill	90,000
24,000-equity share of Rs.100 each	24,00,000	Land & Building	12,00,000
10% debentures	6,00,000	Plant & Machinery	18,00,000
Bank overdraft	6,00,000	Stock	2,60,000
Sundry Creditors	3,00,000	Debtors	2,80,000
		Cash	30,000
		P&L A/c	14,00,000
		Preliminary expenses	40,000
	51,00,000		51,00,000

On the above date, the company adopted the following scheme of reconstruction:

(i) The equity shares are to be reduced to shares of Rs.40 each fully paid and the preference shares to be reduced to fully paid shares of Rs.75 each.

(ii) The debentureholders took over stock and debtors in full satisfaction of their claims.

(iii) The Land and Building to be appreciated by 30% and Plant and Machinery to be depreciated by 30%.

(iv) The fictitious and intangible assets are to be eliminated.

(v) Expenses of Reconstruction amounted to Rs.5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet.

Dissolution of a partnership firm

14. P, Q and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2009 is as follows:

Liabilities		*Rs.*	*Assets*	*Rs.*
Capital accounts			Plant and Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the business. The following are the amounts realized:

Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,000

Creditors allowed a discount of 5% and realization expenses amounted to Rs.1,500. There was an unrecorded assets of Rs.6,000 which was taken over by Q at Rs.4,800. A bill for Rs.4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

(i) Realisation account.

(ii) Partners capital account.

(iii) Cash account

Partnership- Sale to a company

15. XYZ & Co. is a partnership firm consisting of Mr. X, Mr. Y and Mr. Z who share profits and losses in the ratio of 2:2:1 and ABC Ltd. is a company doing similar business.

Following is the Balance sheet of the firm and that of the company as at 31.3.2009:

Liabilities	*XYZ & Co.*	*ABC Ltd.*		*XYZ & Co.*	*ABC Ltd.*
	Rs.	*Rs.*		*Rs.*	*Rs.*
Equity share Capital:			Plant & machinery	5,00,000	16,00,000
Equity shares of Rs.10 each		20,00,000	Furniture & fixture	50,000	2,25,000
Partners capital:			Stock in trade	2,00,000	8,50,000
X	2,00,000		Sundry debtors	2,00,000	8,25,000
Y	3,00,000		Cash at bank	10,000	4,00,000
Z	1,00,000		Cash in hand	40,000	1,00,000
General reserve	1,00,000	7,00,000			
Sundry creditors	3,00,000	13,00,000			
	10,00,000	40,00,000		10,00,000	40,00,000

It was decided that the firm XYZ & Co. be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by ABC Ltd. by issuing 50,000 shares of Rs.10 each at a premium of Rs.2 per share.

Partners of XYZ & Co. agreed to divide the shares issued by ABC Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The creditors of XYZ & Co. includes Rs.1,00,000 payable to ABC Ltd. An unrecorded liability of Rs.25,000 of XYZ & Co. must also be taken over by ABC Ltd.

Prepare:

(i) Realisation account, Partners capital account and Cash in hand/Bank account in the books of XYZ & Co.

(ii) Pass journal entries in the books of ABC Ltd. for acquisition of XYZ & Co. and draw the Balance Sheet after the takeover.

Buy Back of shares

16. Dee Limited furnishes the following Balance Sheet as at 31st March, 2008 :

Liabilities	*Rs.'000*	*Rs.'000*
Share Capital:		
Authorised Capital		30,00
Issued and subscrib ed capital:		
2,50,000 equity shares of Rs.10 each fully paid up	25,00	
2,000, 10% Preference shares of Rs.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 and provisions:		14,00
		1,38,00

Assets	Rs.'000
Fixed assets	93,00
Investments	30,00
Current assets, loans and advances	
(Including cash and bank balance)	15,00
	1,38,00

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

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

Short notes

17. Write short notes on the following:
    (a) Preferential Creditors.
    (b) Liquidity Norms of Banking Companies under Section 24 of Banking Regulation Act.
    (c) Reasonable Return in respect of Electricity Supply Companies.
    (d) Foreign Branches.
    (e) Firm underwriting.

Short reasoning based questions

18. (a) State the decision made in the Garner vs Murray case, when there is insolvency of a partner.

    (b) List the expenses to be allocated on the basis of turnover in case of departmental accounts.

    (c) While preparing branch account by invoice price method which entries are shown at invoice price?

    (d) Why goods are marked on invoice price by the head office while sending goods to the branch?

    (e) What is the maximum rate of underwriting commission on shares and debentures?

19. (a) Goods are transferred from Department P to Department Q at a price 50% above cost.

    If closing stock of Department Q is Rs. 27,000, compute the amount of stock reserve.

    (b) A Ltd. take over B Ltd. on April 01, 2007 and discharges consideration for the business as follows:

    (a) Issued 42,000 fully paid equity shares of Rs. 10 each at par to the equity shareholders of B Ltd.

    (b) Issued fully paid up 15% preference shares of Rs. 100 each to discharge the preference shareholders (Rs. 1,70,000) of B Ltd. at a premium of 10%.

    (c) It is agreed that the debentures of B Ltd. (Rs. 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

    Calculate the amount of purchase consideration.

    (c) Pass journal entries in year 1 in the case of the issue of debentures by ABC Co. Ltd.:

    Issued Rs. 1,00,000, 11% debentures at 95% redeemable at the end of 10 years at 102%.

Accounting Standards

20. (a) Distinguish between Integral Foreign Operation (IFO) and Non-Integral Foreign Operation (NFO).

    (b) Presentation of government grants related to specific fixed assets.

21. (a) When can an enterprise commence to capitalize the borrowing costs? What are the conditions to be satisfied for commencement of capitalization?

    (b) Circumstances under which a lease can be reckoned as non-cancellable.

22. (a) Explain “Theoretical ex-rights fair value per share” in context of AS 20-Earnings Per Share.

    (b) Can internally generated brands, publishing titles and other similar items be recognized as intangible assets?

    (c) What are the aspects to be considered for the measurement of a Provision?

Practical Questions Based on Accounting Standards

23. (a) X Ltd. received a revenue grant of Rs.10 cores during 2006-07 from Government for welfare activities to be

    Carried on by the company for its employees. The grant prescribed the conditions for utilizations.

    However during the year 2008-09, it was found that the prescribed conditions were not fulfilled and the grant should be refunded to the Government.

    State how this matter will have to be ealt with in the financial statements of X Ltd. for the year ended 2008-09.

    (b) A limited company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2008-2009.

    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 31.3.2009. 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?

24. Pankaj Ltd. is a company engaged in manufacture of Nuclear Power Stations. The Company usually resorts to long term Foreign Currency borrowings for its fund requirements. The Company had on 1st April, 2005 borrowed U.S. $100 million from Global Fund Consortium based in Washington, USA. The funds were used by Pankaj Ltd. for purposes OTHER THAN acquiring ‘Depreciable Capital Assets’. The loan carries an interest rate of 3 per cent on reducing balance and is repayable in two instalments, the first one due on 1st April, 2010 and the next on 1st April, 2012. The interest due on the loan has been paid in full on 31st March of each year. The exchange rate on the date of borrowing was 1 U.S. $ = INR 40.

    The accounting treatment followed by the Company for the subsequent three years with exchange rates prevailing on those dates were as under:

Year ended	Exchange Rate	Accounting Treatment
31st March, 2006	1 US $ = 41	Forex Loss of Rs.10 crore charged to Profit and Loss account;
31st March, 2007	1 US $ = 39	Forex gain of Rs.20 crore recognised in Profit and Loss Account;
31st March, 2008	1 US $ = 48	Forex Loss of Rs.90 crore charged to Profit and Loss account;

Note: Interest payment was charged to Profit and Loss account of each year at transaction value on payment dates.

Pankaj Ltd. is in the process of finalising its accounts for the year ended 31st March, 2009 and understands that AS 11 has been amended and opts to follow the Companies (Accounting Standards) Amendment Rules, 2009.

(a) You are required to show treatment of the Forex Losses/gains in the light of the above amendment to AS 11 for the years 2005-06; 06-07; 07-08 & 08-09. The exchange rate to 1 US Dollar on 31st March, 2009 is Rs.50. Assuming that the rates of Exchange on 31st March, 2010 and 31st March, 2011 will be Rs.51 and Rs.52 respectively the accounting for the Forex Losses/gains may also be shown for these years also.

(b) What are the disclosure requirements to be complied with by Pankaj Ltd. as a result of having opted to follow the amendment in the Companies (Acco8unting Standard) Rules, 2006.

(c) Would your answer to (a) above be different of Pankaj Ltd. was not a Company and were a Co-operative Society.

25. (a) Explain the treatment of the following:

(i) A firm acquired a fixed asset for Rs. 250 lakhs on which the government grant received was 40%.

(ii) Capital subsidy received from the central government for setting up a plant in the notified backward region. Cost of the plant Rs. 300 lakhs, subsidy received Rs. 100 lakhs.

(iii) Rs. 50 lakhs received from the state government for the setting up of water-treatment plant.

(iv) Rs. 25 lakhs received from the local authority for providing medical facilities to the employees.

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

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

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

(c) Should appropriation to mandatory reserves be excluded from net profit attributable to equity shareholders?

Kashyap Ltd. is engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered into with its debentureholders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the Reserve constitutes at least half the value of such debentures. As such, appropriations are not available for distribution to the equity shareholders. Kashyap Ltd. has excluded this from the numerator in the computation of basis EPS. Is this treatment correct?

(d) Can internally generated brands, publishing titles and other similar items be recognized as intangible assets?

(e) At the end of the financial year ending on 31st December, 2005, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

	Probability	*Loss (Rs.)*
In respect of five cases (Win)	100%	–
Next ten cases (Win)	60%	–
Lose (Low damages)	30%	1,20,000
Lose (High damages)	10%	2,00,000
Remaining five cases		
Win	50%	–
Lose (Low damages)	30%	1,00,000
Lose (High damages)	20%	2,10,000

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

SUGGESTED ANSWERS/HINTS

1. Journal Entries

2009			*Rs.*	*Rs.*
Jan.1	14% Debentures A/c	Dr.	12,00,000	
	Premium on Redemption of Debentures A/c	Dr.	24,000	
	To Debentures holders A/c			12,24,000
	(Being amount payable on redemption of Rs.12,00,000 debentures at a premium of 2%)			

Debenture Redemption Reserve A/c	Dr.	24,000	
To Premium on Redemption of Debentures A/c			24,000
(Being premium on redemption adjusted against Debenture Redemption Reserve A/c)			
Debenture holders A/c $\left(12{,}24{,}000 \times \frac{75}{100}\right)$	Dr.	9,18,000	
To Equity Share Capital A/c (72,000 × 10)			7,20,000
To Premium on Issue of Shares A/c (72,000 x 2.75)			1,98,000
(Being issue of 72,000 shares of Rs.10 each at a premium of Rs.2.75 per share to 75% debenture holders who exercised conversion option)			
Debenture holders A/c	Dr.	3,06,000	
To Bank A/c			3,06,000
(Being cash payment to 25% debenture-holders)			
Debenture Redemption Reserve A/c	Dr.	9,42,000	
To General Reserve A/c			9,42,000
(Being balance of Debenture Redemption Reserve A/c transferred on 100% redemption of debentures)			
Investment A/c	Dr.	6,60,000	
To Debenture Redemption Reserve Investment A/c			6,60,000
(Being balance of Debenture Redemption Reserve Investment transferred to Investment (General) A/c)			

Working Notes:

(1)	For every Rs.100 debenture, amount payable on redemption including premium is	Rs.102
	Less: Face value of 8 shares of Rs.10 each to be issued for redemption of each debenture (8 × Rs.10)	Rs.80
	Premium on issue of 8 shares	Rs.22
	Therefore, premium on issue of each share $\left(\frac{\text{Rs.}22}{8}\right)$	Rs.2.75

(2) Shares to be issued for conversion of 75% Debentures into shares @ 8 shares for every Rs.100 Debenture i.e. Rs.12,00,000 $\times \frac{75}{100} \times \frac{8}{100} = 72{,}000$ shares

(3) Cash payment for remaining 25% debenture holders who exercised the option of cash i.e., Rs.12,00,000 $\times \frac{25}{100} \times \frac{102}{100} =$ Rs.3,06,000

(4) Face value of investment to be sold to realize Rs.3,06,000 will be Rs.3,40,000

$$\left(\text{i.e.Rs.}\frac{10{,}00{,}000}{9{,}00{,}000} \times \text{Rs.}3{,}06{,}000\right)$$

Loss on sale of investment = 3,40,000 – 3,06,000 = 34,000

(5) Debenture Redemption Reserve transferred to General Reserve:

10,00,000 – 24,000 – 34,000 = Rs. 9,42,000

2. Departmental Trading and Profit and Loss Account

For the year ending March 31, 2009

Dr.	*Cloth* *Rs..*	*Readymade Clothes* *Rs.*	*Total* *Rs.*		*Cloth* *Rs.*	*Readymade Clothes* *Rs.*	*Total* *Rs.* *Cr.*
To Opening Stock	3,00,000	50,000	3,50,000	By Sales	22,00,000	4,50,000	26,50,000
To Purchases	20,00,000	15,000	20,15,000	By Transfer to Readymade Clothes	3,00,000		3,00,000
To Transfer from Cloth Department		3,00,000	3,00,000	By Closing Stock	2,00,000	60,000	2,60,000
To Manufactur-ing Expenses		60,000	60,000				
To Gross profit c/d	4,00,000	85,000	4,85,000				
	27,00,000	5,10,000	32,10,000		27,00,000	5,10,000	32,10,000
To Selling Expenses	20,000	6,000	26,000	By Gross Profit b/d	4,00,000	85,000	4,85,000
To Profit c/d	3,80,000	79,000	4,59,000				
	4,00,000	85,000	4,85,000		4,00,000	85,000	4,85,000
To General				By profit b/d			4,59,000

Expenses	1,10,000	
To Stock Reserve (See Note)	1,575	
To Net Profit	3,47,425	
	4,59,000	4,59,000

Note: Stock Reserve has been calculated as follows:

Rate of Gross Profit on Sales in Cloth Department $\frac{4,00,000}{25,00,000} \times 100 = 16\%$

Element of Cloth in Closing Stock of Readymade Clothes :

75% of Rs. 60,000 = Rs. 45,000

Reserve required for unrealised profit @ 16% of Rs. 45,000	Rs. 7,200
Reserve already existing in Opening Stock – $\frac{15}{100} \times \frac{75}{100} \times$ 50,000	Rs. 5,625
Additional Reserve required	Rs. 1,575

Note : It has been possible to know the reserve already credited against unrealised profit in the opening stock. In the absence of information, the reserve should be calculated on the difference in the opening and closing stocks. In the above case, it would have been calculated on Rs. 10,000; since the closing stock has increased, the reserve calculated on it would be debited to the profit and loss account.

3. (a) Computation of intrinsic value of shares of A Co. Ltd. and B Co. Ltd. *Rs.*

(i) Valuation of shares of A Co. Ltd.

Share Capital		10,00,000
Capital Reserve		2,00,000
General Reserve		70,000
		12,70,000
Less: Goodwill being valueless	80,000	
Arrear of Depreciation	40,000	1,20,000
Value of Net Assets		11,50,000
No. of Shares		10,000
Intrinsic value per share		115

(ii) Valuation of Shares of B Co. Ltd.

	Rs.
Share Capital	8,00,000
General Reserve	8,00,000
	16,00,000
No. of Shares	80,000
Value per share	Rs.20

Determination of composition of purchase consideration:

A holder of two shares in A Co. Ltd., will receive 10 shares in B Co. Ltd. plus cash for the balance. The intrinsic value of two shares in A Co. Ltd., is Rs.230 and that of 10 shares B Co. Ltd., is Rs.200. Therefore, for each lot of two shares of A Co. Ltd. A shareholder will receive Rs.30 in cash (Rs.230 – 200).

B Co. Ltd., will therefore issue 50,000 shares of Rs.10 each at the agreed value of Rs.20 each crediting Rs.5,00,000 to Capital Account and Rs.5,00,000 to Securities Premium Account.

Further, B Co. Ltd., will pay cash Rs.1,50,000 (i.e., 5,000 $\times$ 30) for distribution amongst shareholders of A Co. Ltd.

(b) Balance Sheet of B Co. Ltd. (after absorption) as on 31st October, 2009

Liabilities	*Rs.*	*Assets*		*Rs.*
Share Capital Authorised:		Fixed Assets	16,00,000	
2,00,000 Shares of Rs.10 each	2,00,000	Addition on acquisition	7,60,000	23,60,000
Issued & subscribed:		*Investments Current Assets Loans and Advances*		
1,30,000 Shares of Rs.10 each fully paid	13,00,000	Other Current assets (9,00,000 + 6,60,000)		15,60,000
(Issued for consideration other than cash:		Cash at Bank (2,00,000 – 1,50,000)		50,000
50,000 Shares of Rs.10 each fully paid)				
Reserve & Surplus				
Securities Premium	5,00,000			
General Reserve	8,00,000			
Secured Loan	5,00,000			

Unsecured Loans	2,00,000		
Current Liabilities and Provisions			
Sundry Creditors	6,70,000		
	39,70,000		39,70,000

4. Memorandum Branch Stock Account

Dr.						Cr.
		Rs	Rs.			Rs.
To	Goods sent to Brach:			By	Cash Sales	12,50,700
	Cost	28,08,400		By	Credit Sales	17,74,300
	Add: Loading @ 25%	7,02,100	35,10,500	By	Abnormal Loss	
To	Returns from Debtors		10,000		- Spoiled cloth	5,000
				By	Stock on 31st March, 2009	
					- Balancing figure	4,90,500
			35,20,500			35,20,500

Memorandum Branch Debtors Account

Dr.					Cr.
		Rs.			Rs.
To	Credit Sales	17,74,300	By	Cash collected	15,70,000
			By	Discount allowed	15,700
			By	Returns	10,000
			By	Debtors on 31st March, 2009	1,78,600
		17,74,300			17,74,300

Branch Account

Dr.							Cr.
		Rs.	Rs.			Rs.	Rs.
To	Goods Sent to Branch Account		35,10,500	By	Bank		
To	Bank			By	Cash (sales)	12,50,700	
	-Rent	72,000			-From debtors	15,70,000	28,20,700
	-Salaries	1,80,000		By	Goods Sent to Branch		

					Account -Loading		7,02,100
	-Other expenses	35,000	2,87,000	By	Abnormal Loss -Cost of spoiled cloth		4,000
To	Branch Stock Reserve		98,100	By	Branch Stock		4,90,500
To	Profit and Loss Account			By	Branch Debtors		1,78,600
	-Transfer of profit		3,00,300				
			41,95,900				41,95,900

5.

Year 1	Employee compensation expense A/c	Dr.	13,69,010	
	To Stock Options Outstanding A/c			13,69,010
	(Being compensation expense recognised in respect of the ESOP)			
Year 2	Employee compensation expense A/c	Dr.	11,22,740	
	To Stock Options Outstanding A/c			11,22,740
	(Being compensation expense recognised in respect of the ESOP)			
Year 3	Employee compensation expense A/c	Dr.	12,88,250	
	To Stock Options Outstanding A/c			12,88,250
	(Being compensation expense recognised in respect of ESOP)			
Year 5	Bank A/c @ Rs.50	Dr.	30,00,000	
	Stock Options Outstanding A/c @ Rs. 15	Dr.	9,00,000	
	To Share Capital A/c @ Rs. 10			6,00,000
	To Securities Premium A/c @ Rs. 55			33,00,000
	(Being shares issued to the employees against the options vested in them in pursuance of the Employee Stock Option Plan)			
	Bank A/c @ Rs.50	Dr.	90,00,000	
	Stock Options Outstanding A/c @ Rs. 15	Dr.	27,00,000	
	To Share Capital A/c @ Rs. 10			18,00,000
	To Securities Premium A/c @ Rs. 55			99,00,000
	(Being shares issued to the employees against the options vested in them in pursuance of the Employee Stock Option Plan)			

Stock Options Outstanding A/c	Dr.	1,80,000	
To General Reserve			1,80,000
(Being the balance standing to the credit of the Stock Options Outstanding Account, in respect of vested options expired unexercised, transferred to the general reserve)			

Working Notes:

1. The enterprise estimates the fair value of the options expected to vest at the end of the vesting period as below:

   No. of options expected to vest = 300 x 1,000 x 0.97 x 0.97 x 0.97 = 2,73,802 options

   Fair value of options expected to vest = 2,73,802 options x Rs. 15 = Rs. 41,07,030

2. As the enterprise still expects actual forfeitures to average 3 per cent per year over the 3-year vesting period, therefore, it recognizes Rs. 41,07,030/3 towards the employee services.

3. The revised number of options expected to vest

   = 2,49,175 (3,00,000 x .94 x .94 x .94).

   The fair value of revised options expected to vest

   = Rs. 37,37,625 (2,49,175 x Rs. 15).

   The expense to be recognised during the year is determined as below:

Revised total fair value	Rs. 37,37,625
Revised cumulative expense at the end of year 2	
= (Rs. 37,37,625 x 2/3)	Rs. 24,91,750
Less: Expense already recognised in year 1	Rs. 13,69,010
Expense to be recognised in year 2	Rs. 11,22,740

4. The expense to be recognised during the year is determined as below:

   No. of options actually vested = 840 x 300 = 2,52,000

Fair value of options actually vested (Rs. 2,52,000 x Rs. 15) =	Rs. 37,80,000
Expense already recognised	Rs. 24,91,750
Expense to be recognised in year 3	Rs. 12,88,250

6. Receiver's Receipts & Payments Account

Receipts		*Rs.*	*Payments*		*Rs.*
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	80,000	70,000	Debenture holders :		
			Principal	1,50,000	
			Interest for six months	9,750	1,59,750
			Surplus transferred to the Liquidator		82,250
		2,70,000			2,70,000

Liquidator's Final Statement of Account

Receipts		*Rs.*	*Payments*		*Rs.*
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 Rs 2.17 per share		10,850	Trade Creditors	32,000	
			Bank Overdraft	30,000	62,000
			Preference Shareholders :		
			Share Capital	1,00,000	
			Arrears of Div.	22,000	1,22,000
			Equity Shareholders :		
			Return of money to holders of 10,000 fully paid shares at 33 paise each		3,300
		1,93,100			1,93,100

Working Notes :

		Rs.
Calls from partly paid shareholders :		
Deficit before call from Equity Shares (1,82,250 – 1,89,800)		(7550)
Notional call on 5,000 shares @ Rs. 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

7. **Statement showing the amount of provision**

	Amount	*% of provision*	*Provision*
	Rs.		Rs.
Standard Assets	5,000	0.40	20.0
Sub-standard Assets	1,120	10	112.0
Doubtful Assets not covered by security	200	100	200.0
Doubtful Assets covered by security:			
for 1 year	50	20	10.0
for 3 years	300	30	90.0
for 4 years	300	100	300.0
Loss Assets	200	100	200.0
Total			932.0

8. (a) **The Commercial Bank Ltd.**

Journal

Date			*Dr.*	*Cr.*
2009			*Rs.*	*Rs.*
Mar.31	Rebate on Bills Discounted A/c	Dr.	65,040	
	To Interest and Discount A/c			65,040
	(Being the amount of provision for unexpired discount brought forward from the previous year credited to Interest and Discount A/c).			
Mar.31	Interest and Discount A/c	Dr.	92,760	
	To Rebate on Bills Discounted A/c			92,760
	(Being provision for unexpired discount required at the end of the current year.)			
Mar.31	Interest and Discount A/c	Dr.	1,96,34,680	
	To Profit & Loss A/c			1,96,34,680
	(Being transfer of balance to Profit and Loss A/c).			

(b) Rebate on Bills Discounted Account

2009			Rs.	2008			Rs.
Mar. 31 2009	To	Interest and Discount A/c	65,040	April 1 2009	By	Balance b/d	65,040
Mar. 31	To	Balance c/d	92,760	Mar. 31	By	Interest and Discount A/c (rebate required)	92,760
			1,57,800				1,57,800

(c) Interest and Discount Account

2009			Rs.	2008			Rs.
Mar.31	To	Rebate on Bills Dis-counted A/c	92,760	April 1 2009	By	Rebate on Bills Dis-counted A/c (opening balance)	65,040
Mar.31	To	Profit & Loss A/c (transfer)	1,96,34,680	Mar.31	By	Cash and Sundries	1,96,62,400
			1,97,27,440				1,97,27,440

9. Form B – RA (Prescribed by IRDA)

Revenue Account for the year ended 31st March, 2009

Marine Insurance Business

	Schedule	Current Year Rs.
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		5,000
Total (A)		26,54,250
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		2,40,000
Total (B)		25,14,000
Profit from Marine Insurance business (A-B)		1,40,250

Schedules forming part of Revenue Account

Schedule –1

Premiums earned (net)	*Current Year (Rs.)*
Premiums from direct business written	28,27,000
Less: Premium on reinsurance ceded	2,62,000
Total Premium earned (net)	25,65,000
Change in provision for unexpired risk (Rs. 26,93,250 – Rs. 26,50,000)	(43,250)
	25,21,750

Schedule – 2

Claims incurred (net)	17,81,000

Schedule – 3

Commission paid	
Direct	1,50,000
Add: Re-insurance accepted	11,000
Less: reinsurance ceded	14,000
	1,47,000

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	40,000
	3,41,000

Working Notes:

1. Total Premium Income	*Direct*	*Re-insurance*
	Rs.	*Rs.*
Received	24,00,000	3,60,000
Add: Receivable on 31st March, 2009	1,80,000	28,000
	25,80,000	3,88,000
Less: Receivable on 1st April, .2008	1,20,000	21,000
	24,60,000	3,67,000

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

2. **Premium Paid**

Paid	2,40,000
Add: Payable on 31st March, 2009	42,000
	2,82,000
Less: Payable on 1st April, 2008	20,000
	2,62,000

3. **Claims Paid**

Direct Business	16,50,000
Re-insurance	1,25,000
Legal Expenses	20,000
	17,95,000
Less: Re-insurance claims received	1,00,000
	16,95,000

4. **Claims outstanding as on 31st March, 2009**

Direct	1,75,000
Re-insurance	22,000
	1,97,000
Less: Recoverable from Re-insurers on 31st March, 2009	12,000
	1,85,000

5. **Claims outstanding as on 1st April, 2008**

Direct	95,000
Re-insurance	13,000
	1,08,000
Less: Recoverable from Re-insurers on 1st April, 2008	9,000
	99,000

6. *Expenses of Management*

Salaries	2,60,000
Rent, Rates and taxes	18,000
Printing and Stationery	23,000
Legal Expenses	40,000
	3,41,000

10. Alpha Electricity Company Limited

Plant Account

Dr.	*Rs.*		*Cr.* *Rs.*
To Balance b/d	30,00,000	By Balance c/d	66,41,250
To Bank Account	32,81,250		
(Cost of new plant-capitalised)			
To Replacement Account (Old parts)	3,60,000		
	66,41,250		66,41,250
To Balance b/d	66,41,250		

Replacement Account

Dr.	*Rs.*		*Cr.* *Rs.*
To Bank Account (Current cost of replacement)	42,18,750	By Bank Account (Sale of scrap)	9,00,000
		By Plant Account (Old material used)	3,60,000
		By Revenue Account (Transfer)	29,58,750
	42,18,750		42,18,750

Working Notes :

(1) Cost to be incurred for replacement of present plant :

		Cost of Existing Plant Rs.	*Increase %*	*Current Cost Rs.*
Materials		15,00,000	25%	18,75,000
Labour		10,00,000	50%	15,00,000
				33,75,000
Overheads	(1/4 of above or 1/5 of total)			8,43,750
	Current Replacement Cost			42,18,750
	Total Cash Cost			75,00,000
Amount capitalised, excluding old materials used				32,81,250

11. I **Capital Base:** (Figures being in lakhs of rupees)

(a)	Original Cost of fixed assets as reduced by depreciation and contribution by consumers	149.00
(b)	Cost of Intangible assets as reduced by amount written off	5.00

	(c)	Original cost of work in progress	–
	(d)	Contingencies Reserve Investments	10.00
	(e)	Average of current assets (other than Customers' Debts)	20.00
		Total (A)	184.00
	Less:		
	(a)	Loan from Electricity Board	30.00
	(b)	Loan from Approved Institution	10.00
	(c)	8% Debentures	20.00
	(d)	Development Reserve	10.00
	(e)	Security Deposits (e.g. Consumers Deposits)	55.00
	(f)	Tariff and Dividend Control Reserve	4.00
	(g)	Licensee' account	1.00
		Total (B)	130.00
		Capital Base (A – B)	54.00

II Reasonable Return:

		(Rs. in lakhs)
A.	5% being RBI rate plus 2% on Capital Base (54 × 7%)	3.78
B	½% on Loan from Electricity Board and Approved Institution and on Debentures and Development Reserve (Rs. 70.00 × ½%)	.35
C	Income from investments other than Contingencies Reserve Investments (Rs. 50 × 4½%)	2.25
D	Reasonable Return (A + B + C)	6.38

III Total Surplus:

A.	Clear profit after paying Debenture Interest (Rs. 7,90,000 – Rs. 1,60,000)	6,30,000
B.	*Less:* Reasonable Return	6,38,000
C.	Total Surplus (A – B)	Nil

Since the amount of surplus is nil, the entire amount of clear profit (i.e. Rs. 6,3 8,000) is at the disposal of the company. No journal entry is required to be passed since the entire amount already lying in the Net Revenue Appropriation Account is at the option of the company.

12. Statement Showing Liability of underwriters on the basis that 'The Benefit of Firm Underwriting is not given to Individual Underwriters'.

No. of shares

	A	*B*	*C*	*Total*
Gross Liability	60,000	30,000	10,000	1,00,000
Less: Marked Applications	20,000	14,000	6,000	40,000
	40,000	16,000	4,000	60,000
Less: Unmarked applications (Including firm underwriting in Gross Liability Ratio)	24,000	12,000	4,000	40,000
Net Liability	16,000	4,000	-	20,000
Add: Firm underwriting	8,000	10,000	2,000	20,000
Total liability of underwriters	24,000	14,000	2,000	40,000

Alternatively,

Statement Showing Liability of underwriters on the basis that 'The Benefit of Firm Underwriting is given to Individual Underwriters'.

No. of shares

	A	*B*	*C*	*Total*
Gross Liability	60,000	30,000	10,000	1,00,000
Less: Firm underwriting	8,000	10,000	2,000	20,000
	52,000	20,000	8,000	80,000
Less:Marked Applications	20,000	14,000	6,000	40,000
	32,000	6,000	2,000	40,000
Less:Unmarked applications (total application less firm underwriting less marked applications) in Gross Liability Ratio(i.e. 80,000 – 20,000 –40,000)	12,000	6,000	2,000	20,000
Net Liability	20,000	-	-	20,000
Add:Firm underwriting	8,000	10,000	2,000	20,000
Total liability of underwriters	28,000	10,000	2,000	40,000

13. Journal Entries

March 31, 2009			*Rs.*	*Rs.*
(i)	Equity Share Capital A/c (Rs. 100)	Dr.	24,00,000	
	To Equity Share Capital A/c (Rs. 40)			9,60,000
	To Capital Reduction A/c			14,40,000
	(Being 24,000 equity shares of Rs.100 each reduced by Rs.60 each)			
(ii)	10% Preference Share Capital A/c (Rs.100)	Dr.	12,00,000	
	To 10% Preference Share Capital A/c (Rs.75)			9,00,000
	To Capital Reduction A/c			3,00,000
	(Being 12,000 Preference shares of Rs.100 reduced by Rs.25 each)			
(iii)	10% Debentures A/c	Dr.	6,00,000	
	To Stock A/c			2,60,000
	To Debtors A/c			2,80,000
	To Capital Reduction A/c			60,000
	(Being Debentures given stock and debtors in fully satisfaction of their claims)			
(iv)	Land & Building A/c	Dr.	3,60,000	
	To Capital Reduction A/c			3,60,000
	(Being Land & Building appreciated by 30%)			
(v)	Reconstruction Expenses A/c	Dr.	5,000	
	To Bank A/c			5,000
	(Being expenses of reconstruction paid)			
(vi)	Capital Reduction A/c	Dr.	21,60,000	
	To Goodwill A/c			90,000
	To P&L A/c			14,00,000
	To Plant & Machinery			5,40,000
	To Preliminary Expenses			40,000
	To Reconstruction Expenses			5,000
	To Capital Reserve (Balancing Figure)			85,000
	(Being various losses written off, assets written down and balance in Capital Reduction A/c transferred to Capital Reserve A/c)			

Balance Sheet (And Reduced) of X Ltd.

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Fixed Assets:	
24,000, Equity shares @ 40 each fully paid	9,60,000	Land & Building	15,60,000
12,000, 10 % Preference Share of Rs.75 each fully paid	9,00,000	Plant & Machinery	12,60,000
Reserve & Surplus:		Current Assets:	
Capital Reserve	85,000	Cash (30,000 – 5,000)	25,000
Current Liabilities:			
Bank Overdraft	6,00,000		
Sundry Creditors	3,00,000		
	28,45,000		28,45,000

14. Realisation Account

	Particulars		*Amount*		*Particulars*		*Amount*
To	Debtors		48,000	By	Creditors		48,000
To	Stock		60,000	By	Cash (Assets realized)		
To	Fixtures		24,000		Plant and Machinery	1,02,000	
To	Plant and machinery		1,08,000		Fixtures	18,000	
To	Cash (Creditors) A/c		45,600		Stock	84,000	
To	Cash A/c (Bills for sales tax)		4,200		Sundry Debtors	44,400	2,48,400
To	Cash A/c (Realisation expenses)		1,500	By	Q (Unrecorded assets)		4,800
To	Profit on Realisation						
	P	3,960					
	Q	3,960					
	R	1,980	9,900				
			3,01,200				3,01,200

Partners' Capital Accounts

	Particulars	*P*	*Q*	*R*		*Particulars*	*P*	*Q*	*R*
To	Realisation (unrecorded assets)		4,800		By	Balance b/d	1,20,000	48,000	24,000
To	Cash (Balancing Figure)	1,47,960	71,160	37,980	By	Reserve fund	24,000	24,000	12,000
					By	Realisation (Profit)	3,960	3,960	1,980
		1,47,960	75,960	37,980			1,47,960	75,960	37,980

Cash Account

	Particulars	Amount		Particulars	Amount
To	Balance c/d	60,000	By	Realisation A/c (Creditors)	45,600
To	Realisation A/c (Assets)	2,48,400	By	Realisation A/c (Expenses)	1,500
			By	Realisation (Sales Tax)	4,200
				P's Capital A/c	1,47,960
				Q's Capital A/c	71,160
				R's Capital A/c	37,980
		3,08,400			3,08,400

Working Note:

An unrecorded asset is in the nature of gain hence realization account is credited. Since these assets have been taken over by Q, his account has been debited.

15. (i) In the books of XYZ & Co.

Realisation Account

		Rs.			*Rs.*
To	Plant & Machinery	5,00,000	By	Sundry Creditors	3,00,000
To	Furniture & Fixture	50,000	By	ABC Ltd. (Refer W.N.)	6,00,000
To	Stock in trade	2,00,000	By	Partners' Capital Accounts (loss):	
				X's Capital A/c	20,000

To	Sundry Debtors	2,00,000	Y's Capital A/c	20,000
			Z's Capital A/c	10,000
		9,50,000		9,50,000

Partners' Capital Accounts

		X	Y	Z			X	Y	Z
		Rs.	*Rs.*	*Rs.*			*Rs.*	*Rs.*	*Rs.*
To	Realisation A/c	20,000	20,000	10,000	By	Balance b/d	2,00,000	3,00,000	1,00,000
To	Shares in ABC Ltd.	2,40,000	2,40,000	1,20,000	By	General Reserve	40,000	40,000	20,000
To	Cash	-	80,000	-	By	Cash	20,000	-	10,000
		2,60,000	3,40,000	1,30,000			2,60,000	3,40,000	1,30,000

Cash and Bank Account

		Cash	Bank			Cash	Bank
		Rs.	*Rs.*			*Rs.*	*Rs.*
To	Balance b/d	40,000	10,000	By	Cash A/c (Contra)*		10,000
To	Bank A/c (Contra)*	10,000		By	Y	80,000	
To	X	20,000					
To	Z	10,000					
		80,000	10,000			80,000	10,000

(ii) In the Books of ABC Ltd.

Journal Entries

			Dr. (Rs.)	*Cr. (Rs.)*
1.	Business Purchase Account	Dr.	6,00,000	
	To Liquidators of XYZ & Co.			6,00,000
	(Being business of XYZ & Co. purchased and payment due)			
2.	Plant and Machinery A/c	Dr.	5,00,000	
	Furniture and Fixture A/c	Dr.	50,000	
	Stock in Trade A/c	Dr.	2,00,000	
	Sundry Debtors A/c	Dr.	2,00,000	
	To Sundry Creditors			3,00,000
	To Unsecured Liability			25,000
	To Business Purchase Account			6,00,000

* It is assumed that cash at bank has been withdrawn to pay to Partner Y.

	To Capital Reserve (B.F.)			25,000
	(Being take over of all assets and liabilities)			
3.	Liquidators of XYZ & Co.	Dr.	6,00,000	
	To Equity Share Capital Account			5,00,000
	To Securities Premium Account			1,00,000
	(Being purchase consideration discharged in the form of shares of Rs. 10 each issued at a premium of Rs. 2 each)			
4.	Sundry Creditors Account	Dr.	1,00,000	
	To Sundry Debtors Account			1,00,000
	(Being mutual owing eliminated)			

Balance Sheet of ABC Ltd.

as at 31.3.2009 (After take over of XYZ & Co.)

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		Plant and Machinery	21,00,000
Equity Share Capital (Rs.10 each)	25,00,000	Furniture Expenses	2,75,000
Share Premium	1,00,000	Stock in trade	10,50,000
Capital Reserve	25,000	Sundry Debtors	9,25,000
General Reserve	7,00,000	Cash at Bank	4,00,000
Sundry Creditors	15,00,000	Cash in hand	1,00,000
Un-recovered Liability	25,000		
	48,50,000		48,50,000

Working Note:

Computation of purchase consideration:

50,000 Equity shares of Rs.12 each = Rs.6,00,000

Equity shares to be given to partners.

Partners X	=	20,000 Shares @ Rs.12 = Rs.2,40,000
Partner Y	=	20,000 shares @ Rs.12 = Rs.2,40,000
Partner Y	=	10,000 shares @ Rs.12 = Rs.1,20,000

16. **Books of Dee 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 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 shares buy-back A/c	Dr.	25,00	
	To Bank A/c			25,00
	(Being the payment made on buy back)			

Balance Sheet of Dee Limited as on 1st April, 2008

(After buy back of shares)

Liabilities	*Rs.'000*	*Rs.'000*
Share Capital		
Authorised Capital:		30,00
Issued and Subscribed Capital:		
2,00,000 equity shares of Rs.10 each fully paid up	20,00	
2,000 10% Preference shares of Rs.100 each fully paid up	2,00	22,00

Reserve 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
Current Liabilities and Provisions		14,00
		10,500
Fixed Assets		93,00
Current assets loans and advances (including cash and bank balance) (15,00+22,00- 25,00)		12,00
		10,500

17. (a) Section 530 specifies the creditors that have to be paid in priority to unsecured creditors or creditor having a floating charge. Such creditors are known as Preferential Creditors. These are the following:

(a) All revenues, taxes, cesses and rates, becoming due and payable by the company within 12 months next before the commencement of the winding up.

(b) All wages or salaries (including wages payable for time or piece work and salary earned wholly or in part by way of commission) of any employee due for the period not exceeding 4 months within the twelve months next before commencement of winding up provided the amount payable to one claimant will not exceed Rs. 20,000.

(c) All accrued holiday remuneration becoming payable to any employee on account of winding up.

Note: Persons who advance money for the purpose of making preferential payments under (b) and (c) above will be treated as preferential creditors, provided the money is actually so used.

(d) Unless the company is being wound up voluntarily for the purpose of reconstruction, all contributions payable during the 12 months next under the Employees State Insurance Act, 1948, or any other law for the time being in force.

(e) All sums due as compensation to employees under the Workmen's Compensation Act, 1923.

(f) All sums due to any employee from a provident fund, pension fund, gratuity fund or any other fund, for the welfare of the employees maintained by the company.

(g) The expenses of any investigation held under section 235 or 237 in so far as they are payable by the company.

(b) Banking companies have to maintain sufficient liquid assets in the normal course of business. In order to safeguard the interest of depositors and to prevent banks form overextending their resources, liquidity norms have been settled and given statutory recognition. Every banking company has to maintain in cash, gold or unencumbered approved securities, an amount not less than 25%of its demand and time liabilities in India. However, this percentage is changed by the Reserve Bank of India from time to time considering the general economic conditions. This is in addition to the average daily balance which a scheduled bank is required to maintain under Section 42 of the Reserve Bank of India Act and in case of other banking companies, the cash reserve required to be maintained under Section 18 of the Banking Regulation Act.

(c) The law seeks to prevent an electricity undertaking from earning too high a profit. For this purpose, "reasonable return" has been defined as consisting of:

(a) an yield at the standard rate which is Reserve Bank rate plus two per cent on the capital base as defined below;

(b) Income derived from investment except investment made against Contingencies Reserve;

(c) An amount equal to ½ percent on loans advanced by the Electricity Board;

(d) An amount equal to ½% on the amounts borrowed from organizations or institutions approved by the Statement Government;

(e) An amount equal to ½% on the amount raised by the issue of debentures;

(f) An amount equal to ½% on balance of Development Reserve; and

(g) Such other amounts as may be allowed by the Central Government having regard to the prevailing tax structure in the country.

(d) Foreign branches generally maintain independent and complete record of business transacted by them in currency of the country in which they operate. Thus problems of incorporating balances of foreign branches relate mainly to translation of foreign currency into Indian rupees. This is because exchange rate of Indian rupees is not stable in relation to foreign currencies due to international demand and supply effects on various currencies.

(e) 'Firm' underwriting' signifies a definite commitment to take up a specified number of shares irrespective of the number of shares subscribed for by the public. In such a case, unless it has been otherwise agreed, the underwriter's liability is determined without taking into account the number of shares taken up 'firm' by him, i.e. the underwriter is obliged to take up :

1. the number of shares he has applied for 'firm'; and

2. the number of shares he is obliged to take up on the basis of the underwriting agreement.

18. (a) The decision in Garner vs. Murray case requires:

(i) That the solvent partners should bring in cash equal to their respective shares of the loss on realisation;

(ii) That the solvent partners should bear the loss arising due to the insolvency of a partner in the ratio of their Last Agreed Capitals.

The Last Agreed Capital should be interpreted as follows:

	Case	*Meaning of Last Agreed Capital*
1.	In case of Fixed Capitals	Last Agreed Capital means the Fixed Capital (as given in the Balance Sheet) without any adjustment.
2.	In case of Fluctuating Capitals	Last Agreed Capital means the Capital after making adjustments for past accumulated reserves, profits or losses, drawings, interest on capitals, interest on drawings, remuneration to a partner etc. to the date of dissolution but before making adjustment for profit or loss on realisation

(b) Expenses to be allocated on the basis of turnover are: Sales Expenses as travelling salesman, salary and commission, selling expenses after sales service, discount allowed, bad debts, freight outwards, provision for discount on debtors, sales manager's salary and other benefits etc.

(c) In branch accounts by invoice price method-

(i) Goods sent to branch;

(ii) Goods returned by the branch;

(iii) Opening stock at the branch; and

(iv) Closing stock at the branch

are shown at invoice price.

(d) Goods are marked on invoice price to achieve the following objectives:

(i) In order to keep secret from the branch manager the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and

(ii) In order to have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.

(e) Underwriting commission on shares is 5% whereas on debentures it is 2.5%.

19.

(a)

	Rs.
Closing Stock of Department Q	27,000
Goods send by Department P to Department Q at a price 50% above cost	
Hence profit of Department P included in the stock will be - $\frac{27,000 \times 50}{150}$ =	9,000
Amount of the Stock Reserve will be Rs.9,000.	

(b)

Particulars	*Rs.*	*Rs.*
Equity Shares (42,000 x 10)		4,20,000
Preference Share Capital	1,70,000	
Add: Premium on Redemption	17,000	1,87,000
Purchase Consideration		6,07,000

(c)

ABC Co. Ltd.

Journal Entries

		Dr. *Rs.*	*Cr.* *Rs.*
Bank A/c	Dr.	95,000	
Discount on issue of debentures A/c	Dr.	5,000	
Loss on issue of debentures A/c	Dr.	2,000	
To 11% Debentures A/c			1,00,000
To Premium on Redemption of debentures A/c			2,000
(Issue of Rs. 1,00,000 11% debentures at a discount of 5% but redeemable at a premium of 2%)			

20. (a)

Particulars	Integral Foreign Operation (IFO)	Non-Integral Foreign Operation (NFO)
Meaning	It is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.	It is a foreign operation that is not an integral Foreign Operation.
Business	The business of IFO is carried on as if it were an extension of the reporting enterprise's operations.	The business of NFO is carried on in a substantially independent manner by

		accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowings, in its local currency.
Example	Sale of goods imported from the reporting enterprise and remittance of proceeds to the reporting enterprise.	Production in a foreign country out of resources available in such nation independent of the reporting enterprise.
Currencies operated	Generally, IFO carries on business in a single foreign currency, i.e. of the country where it is located.	NFO business may also enter into transactions in foreign currencies, including transactions in the reporting currency.
Cash flows from operations	Cash flows from operations of the reporting enterprise are directly and immediately affected by a change in the exchange rate between the reporting currency and the currency in the country of IFO.	Change in the exchange rate between the reporting currency and the local currency, has little or no direct effect on the present and future Cash Flows from Operations of either the NFO or the reporting enterprise.
Effect of Change in Exchange Rate	Change in the exchange rate affects the individual monetary items held by the IFO rather than the reporting enterprise's Net Investment in the IFO.	Change in the exchange rate affects the reporting enterprise's net investment in the NFO rather than the individual monetary and non-monetary items held by that NFO.

(b) Paragraphs 8 and 14 of AS 12 on Accounting for Government Grants deal with presentation of government grants related to specific fixed assets.

Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Where the grant related to a specific fixed asset equals the whole, or virtually the whole, of the cost of the asset, the asset should be shown in the balance sheet at a nominal value. Alternatively, government grants related to depreciable fixed assets may be treated as deferred income which should be recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset, i.e., such grants should be allocated to income over the periods and in proportion in which depreciation on those assets is charged. Grants related to non-depreciable assets should be credited to capital reserve under this method. However, if a grant related to a non-depreciable asset requires the fulfillment of certain obligations, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income balance should be separately disclosed in the financial statements.

21. (a) Capitalisation of borrowing costs as part of the cost of a qualifying asset should commence only when all the following conditions are satisfied:

1. The expenditure is being incurred for the Acquisition, construction or production of a qualifying asset;
2. Borrowing costs are being incurred; and
3. Activities that are necessary to prepare the asset for its intended use or sale, (including any technical or administrative work prior to the commencement of physical construction but excluding such activities during which no production or development takes place) are in progress.

(b) Accounting Standard 19 on Leases has defined the term non-cancellable lease as a lease that is cancellable only:

- upon the occurrence of some remote contingency; or
- with the permission of the lessor ; or
- if the lessee enters into a new lease for same or an equivalent asset with the same lessor; or
- upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain.

22. (a) As per paragraph 25 of Accounting Standard 20 on Earnings Per Share:

" The theoretical ex-rights fair value per share is calculated by adding the aggregate fair value of the shares immediately prior to the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. Where the rights themselves are to be publicly traded separately from the shares prior to the exercise date, fair value for the purposes of this calculation is established at the close of the last day on which the shares are traded together with the rights."

(b) Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognized as intangible assets.

Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognized as intangible assets.

(c) The following principles/aspects apply in relation to measurement of a Provision.

1. Best Estimate [Para 35]: The amount recognized as Provision should be the best estimate of the expenditure required to settle the present obligation at the Balance Sheet data.

2. Actual Value [Para 35]: The amount of a Provision should not be discounted to its Present Value.

3. Evidence Analysis [Para 36]: The estimates of outcome and its financial effect are determined by – (a) the judgement of the management; (b) experience of similar transactions in the past; (c) reports from independent experts; (d) additional evidence provided by events occurring after the Balance Sheet date.

4. Pre-Tax Effect [Para 37]: Provision should be measured before tax. The tax consequence on the provision shall be dealt as per AS –22.

5. Risks and Uncertainties [Para 38]: The outcome of an event at a future date is subject to (a) Risk of Variability and (2) uncertainty. Hence, Risks and Uncertainties that inevitably surround events and circumstances should be taken into account in reaching the best estimate of a provision.

6. Prudence [Para 39]: Uncertainty does not justify the creation of excessive provisions or deliberate overstatement of liabilities. The concept of Prudence should be considered in determining the quantum of a liability.

7. Future Events [Para 41]: Future events that may affect the amount required to settle an obligation should be reflected in the amount of a Provision where there is sufficient objective evidence that they will occur.

8. Gain on expected disposal of assets [Para 44, 45]: Gains from the expected disposal of assets should not be taken into account in measuring a Provision. Even if the expected disposal is closely linked to the event giving rise to the provision, such gains should be recognized only at the time specified by other AS.

9. Reimbursements from Third Party [Para 46, 47]: The treatment for reimbursements is given below:

   (a) Where some or all of the expenditure required to settle a Provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation.

(b) The reimbursement should be treated as a Separate Asset.

(c) The amount recognized for the reimbursement should not exceed the amount of the provision.

(d) In the Profit and Loss Statement, the expense relating to a Provision may be presented net of the amount recognized for a reimbursement.

10. Review of Provision [Para 52]: Provisions should be reviewed at each Balance Sheet date and adjusted to reflect the current best estimate.

11. Reversal of Provision [Para 52]: Upon review, if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

12. Use/Adjustment of Provision [Para 53, 54]: A provision should be used only for expenditures for which the provision was originally recognized. Any expenditure shall not be adjusted against a provision that was not originally recognized for that purpose.

    Example: Payment of Gratuity shall not be adjusted against Provision for VRS Compensation.

13. Future Operating Losses ignored [Para 55-57]:

    (a) Provisions should not be recognized for Future Operating Losses since they do not meet the definition of a liability and the general recognition criteria for Provisions, under Para 14.

    (b) Where an expectation of Future Operating Losses is an indication of Impairment of Assets, it shall be dealt with as per AS-28.

14. Restructuring Costs [Para 59, 60]: Provision for Restructuring Costs should be recognized only when the recognition criteria for Provisions under Para 14 are met. No obligation arises for the sale of an operation until the enterprise is committed to the sale, i.e. there is a binding sale agreement.

23. (a) As per para 20 of AS 12, "Government Grants" that became refundable should be accounted for as an extra-ordinary item as per Accounting Standard 5.

Therefore, refund of grant should be shown in the profit and loss account of the company as an extra ordinary item during the year 2008-09.

(b) 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 2008-2009. Subsequently in 2009 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.

24.

Year ended	Opening Balance in FCMITD A/c	Exchange Difference	Total	Amt. Recognised in P&L A/c	Closing Balance	Remarks
31st Mar, 06	Nil	(10 crore)	(10 crore)	(10 crore)	NIL	No change required
31st Mar, 07	NIL	(20 crore)		(20 crore)	NIL	No change required
31st Mar, 08	NIL	(90 crore)		(22.50 crore)	(67.50)	See Note No.3
31st Mar, 09	(67.50 crore)	(20 crore)	(87.50 crore)	(29.17 crore)	(58.33 crore)	See Note No.4
31st Mar, 10	(58.33 crore)	(10 corre)	(68.33 crore)	(34.17 crore)	(34.16 crore)	See Note No.5
31st Mar, 11	(34.16 crore)	(10 crore)	(44.16 crore)	(44.16 crore)	NIL	See Note No.6

Notes:

1. FCMITD A/c denotes Foreign Currency Monetary Item Translation Difference Account
2. Losses/debit balance are depicted within brackets.
3. Total loss of Rs.90 crore parked in FCMITD A/c and amortised over 4 years till 2011. The amount of Rs.67.50 crore would be credited to General reserve & debited to FCMITD A/c in the year 2008-09.
4. The amount written off 2008-09 will 1/4th of Rs.90 crore i.e. Rs.22.50 crore + 1/3rd of Rs.20 crore = Rs.29.17 crore.

5. The amount written off in 2009-10 is 1/4th of Rs.90 crore + 1/3rd of Rs.20 crore + ½ of Rs.10 crore = Rs.34.17 crore.

6. The entire balance including loss on current year repayment is fully amortised.

7. The losses on amount repaid in 2010-11 are also routed through FCMITD A/c. Interest payments will be charged to the Profit & Loss account as done in earlier years at transaction value.

25. (a) (i) The total cost of the fixed asset is Rs. 250 lakhs and the grant is 40% i.e., Rs. 100 lakhs. In the balance sheet, the asset will be shown at the net amount (Rs. 250 lakhs – Rs. 100 lakhs) i.e, Rs. 150 lakhs only. This will depreciated over the life of the asset.

(ii) In this case, the subsidy received for setting up a plant in the notified region, should be treated as a capital subsidy. The amount of subsidy i.e. Rs. 100 lakhs be added to the Capital Reserves and the plant should be shown at Rs. 300 lakhs.

(iii) Rs. 50 lakhs received from state government for setting up of water treatment plant should be deducted fro the cost of the plant in the balance sheet.

(iv) It is a case of revenue grant and should be shown in the profit and loss account. However, if the medical facilities are to be provided over a period of more than one year, it may be treated as deferred income and then taken to Profit and Loss Account on a systematic basis.

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

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

2. Weighted Average Capitalisation Rate for General Borrowings =

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

$$= \frac{(40.40 - 17.75)}{(400 - 190)} \times 100 = (22.65 \div 210) \times 100 = 10.79\%$$

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

Plant	*Borrowing*	*Loan Amount*	*Interest Rate*	*Interest Amount*	*Cost of Asset*	
		Rs.in lakhs		*Rs. in lakhs*	*Rs. in lakhs*	*Rs. in lakhs*
P	General	100	10.79%	10.79		110.79
Q	Specific	65	10.00%	6.50	71.50	
	General	60	10.79%	6.47	66.47	137.97
R	Specific	125	9.00%	11.25	136.25	
	General	50	10.79%	5.39	55.39	191.64
	Total	400		40.40		440.40

Note: The amount of borrowing costs capitalized should not exceed the actual interest cost.

(c) Para 11 of AS 20 states that "for the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to Equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period".

With an emphasis on the phrase "attributable to equity shareholders", it may be construed that amounts appropriated to Mandatory Reserves as described in this case, though not available for distribution as dividend, are still attributable to equity shareholders.

Therefore, the appropriation made to mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS. The treatment made by the company is not correct.

(d) Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognized as intangible assets.

Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognized as intangible assets.

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

(i) There is a present obligation arising out of past events but not recognized as provision.

(ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

(iii) The possibility of an outflow of resources embodying economic benefits is also remote.

(iv) The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision.

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

Expected loss in next ten cases = 30% of Rs. 1,20,000 + 10% of Rs. 2,00,000

= Rs. 36,000 + Rs. 20,000

= Rs. 56,000

Expected loss in remaining five cases = 30% of Rs. 1,00,000 + 20% of Rs. 2,10,000

= Rs. 30,000 + Rs. 42,000

= Rs. 72,000

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

Note: AS 4, 5, 11, 12, 16, 19, 20, 26, 29 are applicable for May, 2010 Examination.

Appendix

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

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

DATED 31-3-2009

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

1. (1) These rules may be called the Companies (Accounting Standards) Amendment Rules, 2009.

   (2) They shall come into force on the date of their publication in the Official Gazette.

2. In the Companies (Accounting Standard) Rules, 2006, in the Annexure, under the heading "B. ACCOUNTING STANDARDS", in the sub-heading "Accounting Standard (AS) 11" relating to "The Effects of Changes in Foreign Exchange Rates", after paragraph 45, the following shall be inserted, namely:-

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

PAPER – 5 : ADVANCED ACCOUNTING

QUESTIONS

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

1. (i) On 31st March, 2010 Maya Bank Ltd. finds that:

   (1) On a term loan of Rs.2 crores, interest for the last three quarters is in arrears beyond the due date.

   (2) The amount of Rs.10 lakhs of a discounted bill was due on 31st January, 2010 but the same has not been received.

   (3) On a term loan of Rs.1 crore, interest for the last one month is past due.

   Which of the above advances, will be treated as non-performing assets (NPA) as on 31st March, 2010?

   (ii) A company issued 1,000 12% debentures of Rs.500 each at Rs.450, redeemable after five years at 10% discount. However, the company gave an option to the debenture holders to get their debentures converted into equity shares of Rs.50 any time after expiry of one year.

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

   Pass the necessary journal entry to record the conversion of debentures into shares.

   (iii) The following particulars relate to a Limited Company which has gone into voluntary liquidation.

Unsecured creditors	Rs. 18,00,000
Partly secured creditors (Assets realized Rs.3,20,000)	Rs. 3,50,000
Cash available for unsecured creditors after all payments including payment to preferential creditors	Rs.13,39,000

   Liquidator's remuneration is @ 2% on the amount paid to unsecured creditors. Calculate the percentage of amount paid to the Unsecured Creditors to the total Unsecured Creditors.

   (iv) The following is the Balance sheet of 'A' Ltd. as on 31.3.2010:

Liabilities	Rs.	Assets	Rs.
14,000 Equity Shares of Rs.100 each fully paid up	14,00,000	Sundry Assets	18,00,000
General Reserve	10,000	Discount on issue of Debentures	10,000

10% Debentures	2,00,000	Preliminary Expenses	30,000
Sundry Creditors	2,00,000	P & L A/c	60,000
Bank Overdraft	50,000		
Bills payable	40,000		
	19,00,000		19,00,000

'R' Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Asset method on the basis of the following:

The market value of 75% of the Sundry Assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities have been taken at book values. There is an unrecorded liability of Rs.25,000.

(v) Write a short note on 'B' List contributories under Liquidation of a company.

(vi) Goods purchased on 24.02.2010 for US $ 10 (Exchange rate – Rs.50/$)

(Rate of exchange on 31.3.2010 – Rs.51/$)

Date of actual payment 5.6.2010 (Exchange rate – Rs.52/$)

Calculate the amount of loss/gain to be recognized in the financial statements for the year ended 31st March, 2010.

(vii) Sparkli Company Ltd. had 1,00,000 shares of common stock outstanding on January 1. Additional 50,000 shares were issued on July 1, and 25,000 shares were bought back on September 1. Compute the weighted average number of shares outstanding during the year.

(viii) If goods are transferred from department A to department B at a price so as to include a profit of 50% on cost. Compute the amount of stock reserve on closing stock of Rs. 9,000 in department B.

(ix) Omega Ltd. issued 20,000, 8% debentures of Rs. 10 each at par, which are redeemable after 5 years at a premium of 20%. What will be the amount of loss on redemption of debentures to be written off each year.

(x)

Net profit for the current year	Rs. 1,00,00,000
No. of equity shares outstanding	50,00,000
Basic earnings per share	Rs. 2.00
No. of 12% convertible debentures of Rs. 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expense for the current year	Rs. 12,00,000
Tax relating to interest expense (30%)	Rs. 3,60,000

Compute Diluted Earnings per Share.

PAPER – 5 : ADVANCED ACCOUNTING

Conceptual Framework for Preparation and Presentation of Financial Statements

2. What is the status and scope of the conceptual framework for preparation and presentation of financial statements?

Partnership-Insolvency of a Partner

3. A, B, C and D were partners sharing profits and losses in the ratio of 3:3:2:2. Following was their Balance Sheet as on 31.12.2009:

Liabilities		Rs.	Assets		Rs.
Capital Accounts: A	60,000		Capital Accounts: C	48,000	
B	45,000	1,05,000	D	18,000	66,000
Creditors		46,500	Furniture		12,000
A's Loan		30,000	Trademarks		21,000
			Stock		30,000
			Debtors	48,000	
			Less: Provision for doubtful debts	1,500	46,500
			Bank		6,000
		1,81,500			1,81,500

On 31.12.2009, the firm was dissolved and B was appointed to realise the assets and to pay off the liabilities. He was entitled to receive 5% commission on the amount finally paid to other partners as capital. He agreed to bear the expenses of realisation. The assets were realised as follows: Debtors Rs.33,000; Stock Rs.24,000; Furniture Rs.3,000; Trademarks Rs.12,000.

Creditors were paid off in full, in addition, a contingent liability for Bills Receivable discounted materialised to the extent of Rs.7,500. Also, there was a joint life policy for Rs.90,000. This was surrendered for Rs.9,000. Expenses of realisation amounted to Rs.1,500. C was insolvent but Rs.11,100 was recovered from his estate.

Prepare Realisation Account, Bank Account and Capital Accounts of the partners.

Partnership - Piecemeal Distribution

4. Daksh Associates is a reputed firm. On account of certain misunderstanding between the partners, it was decided to dissolve the firm as on 31st December, 2009. Their Balance Sheet as on 31st December, 2009 was follows:

Liabilities		Rs.	Assets	Rs.
Capitals:			Land and Buildings	7,00,000
Daksh	3,00,000		Other Fixed Assets	3,00,000
Yash	2,00,000		Stock in Trade	2,00,000

Siddhart (Minor) 1,00,000		Debtors	4,00,000
	6,00,000	Bills Receivable	1,50,000
Trade Loans	3,00,000	Goodwill	30,000
Bank Overdraft	3,00,000	Cash	20,000
Other Loans	2,00,000		
Creditors	2,00,000		
Siddhart's Loan	2,00,000		
	18,00,000		18,00,000

It was decided that Mr. Daksh shall be in-charge of Realisation. He shall set apart Rs.10,000 towards expenses. He shall be paid a remuneration of 5 percent on the amounts distributed to the partners towards their contribution other than loans. Assets realized are as under:

		Rs.
1-1-2010	Debtors	3,50,000
15-1-2010	Fixed Assets	4,00,000
1-2-2010	Debtors	50,000
15-2-2010	Bills Receivable	1,40,000
1-3-2010	Fixed Assets	50,000
15-3-2010	Land and Buildings	8,00,000

Prepare a statement showing how the money received on various dates will be distributed assuming:

(a) The actual expenses of realization amounted to Rs. 20,005.

(b) The firm is solvent.

(c) The profit sharing ratio was as under:

	Profit	Loss
Daksh	2	1
Yash	2	1
Siddhart	1	Nil
	5	2

(d) The final dissolution is made on 15th March, 2010

PAPER – 5 : ADVANCED ACCOUNTING

Partnership-Sale to a Company

5. A and B were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.2009 was:

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		60,000	Stock		60,000
Bank overdraft		35,000	Machinery		1,50,000
Capital A/cs:			Debtors		70,000
A	1,40,000		Joint Life Policy		9,000
B	1,30,000	2,70,000	Leasehold Premises		34,000
			Profit & Loss A/c		26,000
			Drawings Accounts:		
			A	10,000	
			B	6,000	16,000
		3,65,000			3,65,000

The business was carried on till 30.6.2010. The partners withdrew in equal amounts half the amount of profits made during the period of six months after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by Rs.10,000 and bank overdraft by Rs.15,000.

On 30.6.2010, stock was valued at Rs.75,000 and Debtors at Rs.60,000; the Joint Life Policy had been surrendered for Rs.9,000 before 30.6.2010 and other items remained the same as at 31.12.2009.

On 30.6.2010, the firm sold the business to a Limited Company. The value of goodwill was fixed at Rs.1,00,000 and the rest of the assets were valued on the basis of the Balance Sheet as at 30.6.2010. The company paid the purchase consideration in Equity Shares of Rs.10 each.

You are required to prepare: (a) Balance Sheet of the firm as at 30.6.2010; (b) The Realisation Account; (c) Partners' Capital Accounts showing the final settlement between them.

Employee Stock Option Plan

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

Pass Journal Entries giving suitable narrations.

Buy Back of Shares

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

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

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

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

Underwriting of Shares

8. Outset Ltd. invited applications from public for 1,00,000 equity shares of Rs.10 each at a premium of Rs.5 per share. The entire issue was underwritten by the underwriters P, Q, R and S to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000, 2,000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law.

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

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

Redemption of Debentures

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

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

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

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

Amalgamation of Companies

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

Balance Sheets as on 31.12.2009

Liabilities	Huge Ltd.	Big Ltd.	Assets	Huge Ltd.	Big Ltd.
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Share capital :			Sundry fixed assets	9,50,000	4,00,000
Equity shares of Rs. 10 each	7,00,000	2,50,000	Investments (Non-trade)	2,00,000	50,000
General reserve	3,50,000	1,20,000	Stock	1,20,000	50,000
Profit and loss A/c	2,10,000	65,000	Debtors	75,000	80,000
Export profit reserve	70,000	40,000	Advance tax	80,000	20,000
12% Debentures	1,00,000	1,00,000	Cash and bank	2,75,000	1,30,000
Sundry creditors	40,000	45,000	Preliminary expenses	10,000	
Provision for taxation	1,00,000	60,000			
Proposed Dividend	1,40,000	50,000			
	17,10,000	7,30,000		17,10,000	7,30,000

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

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

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

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

Internal Reconstruction

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

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

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

(a) The equity shareholders have agreed that their Rs. 50 shares should be reduced to Rs. 2.50 by cancellation of Rs. 47.50 per share. They have also agreed to subscribe for three new equity shares of Rs. 2.50 each for each equity share held.

(b) The preference shareholders have agreed to cancel the arrears of dividends and to accept for each Rs. 50 share, 4 new 5% preference shares of Rs. 10 each, plus 6 new equity shares of Rs. 2.50 each, all credited as fully paid.

(c) Lenders to the company for Rs. 1,50,000 have agreed to convert their loan into shares and for this purpose they will be allotted 12,000 new preference shares of Rs. 10 each and 12,000 new equity shares of Rs. 2.50 each.

(d) The directors have agreed to subscribe in cash for 40,000 new equity shares of Rs. 2.50 each in addition to any shares to be subscribed by them under (a) above.

(e) Of the cash received by issue of new shares, Rs. 2,00,000 is to be used to reduce the loan due by the company.

(f) The equity share capital cancelled is to be applied:

i. to write off the preliminary expenses;

ii. to write off the debit balance in the profit and loss account; and

iii. to write off Rs. 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction. The nominal capital as reduced is to be increased to Rs.6,50,000 for preference share capital and Rs.7,50,000 for equity share capital.

Liquidator's Statement of Account

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

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets:	
1,000, 6% Preference Shares of		Machinery	1,90,000
Rs. 100 each fully paid up	1,00,000	Furniture	10,000
2,000, Equity Shares of Rs. 100		Current Assets:	
each fully paid up	2,00,000	Stock	1,20,000
2,000 Equity Shares of Rs. 100		Debtors	2,40,000
each, Rs. 75 paid up	1,50,000	Cash at Bank	50,000
Bank Loan (secured on stock)	1,00,000	Miscellaneous Expenditure:	
Current Liabilities and Provision:		Profit and Loss Account	3,00,000
Creditors	3,50,000		
Income-tax Payable	10,000		
	9,10,000		9,10,000

The company went into liquidation on 1st April, 2010. The assets were realised as follows:

	Rs.
Machinery	1,66,000
Furniture	8,000
Stock	1,10,000
Debtors	2,30,000
Liquidation expenses	4,000

The liquidators are entitled to a commission at 2% on amount paid to unsecured creditors excluding payment made to preferential creditors. Calls on partly paid shares were made but the amount due on 200 shares were found to be irrecoverable.

Prepare Liquidator's Statement of Account.

Financial Statements of Banking Companies

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

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

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

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

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

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

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

Additional information:

(i) Provide for Contingencies Rs.2,00,000.

(ii) Transfer Rs.15,57,000 to Reserves and

(iii) Transfer Rs.2,00,000 to Central Government.

Financial Statements of Insurance Companies

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

			(Rs. in lakhs)
Direct Business Premium Income received	50.00	Commission paid on Direct Business	5.00
Reserve for unexpired risks as on 1.4.2009	60.00	Expenses of Management	5.00
Claims outstanding as on 1.4.2009 (net)	20.00	Income tax deducted at source	3.00
Bad Debts	10.00	Profit and Loss Account (Cr.) balance as on 1.4.2009	10.00
Income from investment and dividends (gross)	10.00	Other expenses	1.25
Rent received from properties	5.00	Reinsurance premium receipts	5.00
Investment in government securities as on 1.4.2009	100.00	Outstanding claims as on 31.3.2010 (net)	30.00
Investment in shares as on 1.4.2009	20.00	Direct claims paid (gross)	25.00
		Reinsurance claims paid	4.00

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

(a) All direct risks are reinsured for 20% of the risk.

(b) Claim a Commission of 25% on reinsurance ceded.

(c) Provide 25% Commission on reinsurance accepted.

(d) Market value of investments as on 31st March, 2010 is as follows:

(i) Government Securities Rs. 105 lakhs.

(ii) Shares Rs. 18 lakhs.

Adjust separately for each of these two categories of investments.

(e) Provide 65% for Income tax.

Financial Statements of Electricity Supply Companies

16. An Electric Supply Company rebuilds its Mains at the cost of Rs.19,90,000. This excludes value of Rs.13,800 material of old Main used for new one. The original mains were constructed at a cost of Rs.9,90,000. the ratio of material and labour then was 7:3.

The increase in material prices is $12\frac{1}{2}\%$ and wage rates 15%. Materials worth Rs.25,200 from old works was sold.

Show Journal entries and prepare Mains Account and Replacement Account under Double Accounts System for the above and determine the net cost of replacement.

17. From the following details of Prakash electricity supply company, maintaining accounts under Double Account System, calculate the following:

(a) clear profit (b) capital base (c) reasonable return (d) disposal of surplus and (e) statement of disposal.

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

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

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

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

PAPER – 5 : ADVANCED ACCOUNTING

Branch Accounts

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

Particulars	H.O. (Rs.)	Branch (Rs.)
Capital Account	40,000	
Drawings by Proprietor	10,000	
Purchases	4,00,000	
Packing materials bought	6,000	
Sales	3,20,000	1,00,000
Despatch of goods to Branch	1,13,400	
Selling expenses	16,000	800
Clerk's salary, wages, etc.	20,000	3,000
Sundry Debtors	28,000	4,200
Sundry Creditors	26,600	5,000
Head Office Current A/c		12,000
Branch Office Current A/c	19,000	
Bank Balances	2,000	
Goods received from Head Office		1,08,000

Information

(a) Sales by head office were on uniform gross profit, after charging packing materials, of 20% at the fixed selling price.

(b) Sales at Branch were at fixed selling price.

(c) Goods invoiced and despatched by head office to branch in March 2010 for Rs. 5,400 were received in the Branch only on 10th April.

(d) Stock of packing materials at head office as on 31st March 2010 was valued at Rs. 1,000.

(e) Remittance of Rs. 1,600 from the branch to the Head Office was in transit on 31.3.2010.

(f) Rs. 2,000 worth of stock at selling price was damaged at the branch. For valuing stock, this was reduced by Rs. 1,090 below the invoice cost to the branch. It was decided that the Head office and branch would share equally the loss occasioned by this and also the deficit in stock, ascertained on actual stock taking at the Branch of goods at selling price of Rs. 500.

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

Departmental Accounts

19. M/s Maalamaal Limited has three departments A, B and C. From the particulars given below compute:

(a) the values of stock as on 31st December, 2009 and

(b) the departmental trading results.

(i)	A Rs.	B Rs.	C Rs.
Stock as on 1st January, 2009	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual sales	1.72,500	1,59,400	74,600
G.P. on normal selling prices	20%	25%	$33\frac{1}{3}$ %

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

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

Liquidator's B List Contributories

20. In a winding up of a company, certain creditors remained unpaid. The following persons had transferred their holding sometime before winding up :

Name	Date of Transfer 2009	No. of Shares transferred	Amount due to creditors on the date of transfer Rs.
P	January 1	1,000	7,500
Q	February 15	400	12,500
S	March 15	700	18,000
T	March 31	900	21,000
U	April 5	1,000	30,000

The shares were of Rs. 100 each, Rs. 80 being called up and paid up on the date of transfers.

A member, R, who held 200 shares died on 28th February, 2009 when the amount due to creditors was Rs. 15,000. His shares were transmitted to his son X.

Z was the transferee of shares held by T. Z paid Rs. 20 per share as calls in advance immediately on becoming a member.

The liquidation of the company commenced on 1st February, 2010 when the liquidator made a call on the present and the past contributories to pay the amount.

You are asked to quantify the maximum liability of the transferors of shares mentioned in the above table, when the transferees :

(i) pay the amount due as "present" member contributories;

(ii) do not pay the amount due as "present" member contributories.

Also quantify the liability of X to whom shares were transmitted on the demise of his father R.

Accounting Standards

21. (a) Whether the borrowing cost incurred on loan borrowed for construction of building on land, is capitalized when the land has been acquired but no construction has been started yet?

(b) Alpha Ltd. has not disclosed basic EPS and diluted EPS on the face of its Profit and Loss Account as it has incurred a loss during the year. State whether, the company is right in its contentions or not?

(c) Nischit Ltd. has acquired a generator on 1.4.2009 for Rs. 50 lakhs. On 2.4.2009, it applied to IREDA (Indian Renewable Energy Development Authority) for a subsidy of 10% of the cost as the generator was using solar energy. The subsidy was granted in June, 2009 after the accounts for 2008-09 were finalised. The company has not accounted for the subsidy for the year ended 31.3.2009. Give your views on the following:

a. Is this a prior period item?

b. How should the subsidy be accounted in the accounting year 2009-10?

(d) A Limited Company closed its books in the accounting year ended on 30.6.2010 and the accounts for that period were considered and approved by the board of directors on 20th August, 2010. The company was engaged in laying pipe line for an oil company deep beneath the earth. While doing the boring work on 1.9.2010 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of Rs.80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.2010.

22. (a) A Limited Company finds that the stock sheets as on 31.3.2009 had included twice an item, the cost of which was Rs. 20,000.

You are asked to suggest, how the error would be dealt with in the accounts of the year ended 31.3.2010.

(b) Assets and liabilities and income and expenditure items in respect of foreign branches are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue. Give your comments on the above matter for the financial year ending on 31.3.2010.

(c) A Pharma Company spent Rs. 33 lakhs during the accounting year ended 31st March, 2010 on a research project to develop a drug to treat “AIDS”. Experts are of the view that it may take four years to establish whether the drug will be effective or not and even if found effective it may take two to three more years to produce the medicine, which can be marketed. The company wants to treat the expenditure as deferred revenue expenditure.

(d) Mini Ltd. took a factory premises on lease on 1.4.07 for Rs.2,00,000 per month. The lease is operating lease. During March 2008, Mini Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2010. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2010 should be provided in the accounts for the year ending 31.3.2008. Mini Ltd. seeks your advice.

23. (a) State, how you will deal with the following matters in the accounts of U Ltd. for the year ended 31st March, 2010 with reference to Accounting Standards:

(i) The company finds that the stock sheets of 31.3.2009 did not include two pages containing details of inventory worth Rs. 14.5 lakhs.

(ii) The company had spent Rs. 45 lakhs for publicity and research expenses on one of its new consumer product, which was marketed in the accounting year 2009-2010, but proved to be a failure.

(b) While preparing its final accounts for the year ended 31st March, 2010 a company made a provision for bad debts @ 5% of its total debtors. In the last week of February, 2010 a debtor for Rs. 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2010 the debtor became bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2010?

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

In the background of the relevant accounting standard, is the company’s accounting treatment correct? Discuss.

PAPER – 5 : ADVANCED ACCOUNTING

24. (a) A fixed asset was purchased for Rs. 10 lakhs. Government grant received towards it amounted Rs. 4 lakhs. Show the accounting treatment if it is a depreciable asset with Rs. 2 lakhs residual value and 4 years useful life. The company adopts Straight Line method of providing depreciation.

(b) Asset 'A' is constructed from 1.2.2008 to 30.3.2009 from borrowing of Rs. 10 lakhs taken from SBI on 1.7.2008 at 12% per annum interest. The surplus funds were invested till 31.3.2009 which earned interest Rs. 15,000. Show how much borrowing cost will be capitalized during the year 2008-2009 and 2009-2010. Loan is being repaid in 5 equal annual instalment.

(c) Net profit after tax including extraordinary profit/losses for the year ended 31st December, 2009 = Rs.2,00,000

10% cumulative preference shares of Rs. 5,00,000.

Number of equity shares = 5,000 shares, Equity shares of Rs. 100 each = Rs.5,00,000.

Equity dividend declared @ 18%. Corporate dividend tax 15%.

Calculate EPS assuming that out of 5,000 equity shares, 2,000 equity shares were issued on 1.7.2009.

25. (a) On January 2, 2009, Devansh Co. Ltd. bought a trademark from Induga Co. for Rs.10,00,000. Devansh Co. Ltd. hired an independent consultant, who estimated the trademark's remaining life to be 20 years. Its unamortized cost on Induga Co.'s accounting records was Rs.5,00,000. Devansh Co. Ltd. decided to amortize the trademark over the maximum period allowed. In Devansh Co. Ltd.'s December 31, 2009 balance sheet, what amount should be reported, as accumulated amortization?

(b) An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair value of the equipment are Rs. 3,00,000. The amount will be paid in 3 instalments and at the termination of lease, lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is Rs. 40,000. The IRR (internal rate of return) of the investment is 10%. The present value of annuity factor of Re. 1 due at the end of 3rd year at 10% IRR is 2.4868. The present value of Re. 1 due at the end of 3rd year at 10% rate of interest is 0.7513. State with reason whether the lease constitutes finance lease.

SUGGESTED ANSWERS/HINTS

1. (i) (1) A term loan is treated as NPA if interest on it remains past due for a period of more than 90 days. In the present case, interest is in arrears for the last 3 quarters beyond the due date. Hence the term loan is NPA as on 31st March, 2010.

(2) To be treated as NPA the discounted bill must remain overdue and unpaid for a period of more than 90 days. But in the present case, bill has remained

overdue for less than 90 days. Hence the discounted bill is not to be treated as NPA as on 31st March, 2010.

(3) The term loan of Rs.1 crore is not to be treated as NPA as on 31st March, 2010 because interest is past due for less than 90 days.

(ii)

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

(iii) Liquidator's remuneration on unsecured creditors $= \frac{2}{102} \times 13,39,000 = \text{Rs.}26,255$

Unsecured portion in partly secured creditors = Rs.3,50,000 - Rs.3,20,000

= Rs.30,000

Total unsecured creditors = 18,00,000 + 30,000 = Rs.18,30,000

Amount paid to unsecured creditors = 13,39,000 – 26,255 = Rs.13,12,745.

Percentage of amount paid to unsecured creditors to total unsecured creditors

$$= \frac{13,12,745}{18,30,000} \times 100 = 71.73\ \%$$

(iv) **Calculation of Purchase consideration under Net Asset Method:**

Sundry Assets			Rs.
	$18,00,000 \times \frac{75}{100} \times \frac{112}{100}$	15,12,000	
	$18,00,000 \times \frac{25}{100} \times \frac{92}{100}$	4,14,000	19,26,000
Less:	Liabilities:		
	10% Debentures	2,00,000	
	Sundry Creditors	2,00,000	
	Bank Overdraft	50,000	
	Bills Payable	40,000	
	Unrecorded Liability	25,000	5,15,000
Purchase consideration			14,11,000

(v) 'B' list contributories are those shareholders who transferred partly paid shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up. Such shareholders may be called upon to pay an amount (not exceeding the amount not called up when the shares were transferred) to pay off such creditors as existed on the date of transfer of shares and can not be paid out of the funds otherwise available with the liquidator, provided also that the existing shareholders have failed to pay the amount due on the shares.

(vi) The loss of Rs. 10 (i.e. US Dollars 10 x Re.1 (51-50))

(vii) 1,00,000 x 12/12 + 50,000 x 6/12 - 25,000X 4/12 = 1,16,667 shares.

(viii) Stock reserve = Rs.9,000 x 50/150 = Rs. 3,000

(ix) Loss on redemption of debentures at premium = 20,000 x Rs.2.

Amount to be written off every year = Rs. 40,000/ 5 = Rs. 8,000

(x) Adjusted net profit for the current year (1,00,00,000 + 12,00,000 – 3,60,000)

= Rs. 1,08,40,000.

No. of equity shares resulting from conversion of debentures = 10,00,000 shares.

No. of equity shares used to compute diluted EPS:

(50,00,000 + 10,00,000) = 60,00,000 Shares

Diluted earnings per share= (1,08,40,000/60,00,000) = Rs. 1.81

2. The framework applies to general-purpose financial statements usually prepared annually for external users, by all commercial, industrial and business enterprises, whether in public or private sector. The special purpose financial reports, for example, prospectuses and computations prepared for tax purposes are outside the scope of the framework. Nevertheless, the framework may be applied in preparation of such reports, to the extent not inconsistent with their requirements.

Nothing in the framework overrides any specific Accounting Standard. In case of conflict between an accounting standard and the framework, the requirements of the Accounting Standard will prevail over those of the framework.

3. **In the books of the Firm**

Realisation Account

	Particulars	Rs.		Particulars	Rs.
To	Furniture A/c	12,000	By	Provision for doubtful debts A/c	1,500
To	Trademarks A/c	21,000	By	Creditors A/c	46,500
To	Stock A/c	30,000	By	Bank A/c (W.N. 1)	81,000
To	Debtors A/c	48,000	By	Partners' Capital A/c	
To	Bank A/c (W.N. 2)	54,000		A = Rs.11,153	
				B = Rs.11,153	
				C = Rs. 7,435	
				D = Rs. 7,435	37,176
To	B's Capital A/c (W.N.3)	1,176			
		1,66,176			1,66,176

Bank Account

	Particulars	Rs.		Particulars	Rs.
To	Balance b/d	6,000	By	Realisation A/c (W.N.2)	54,000
To	Realisation A/c (W.N.1)	81,000	By	A's Loan A/c	30,000
To	Partners' Capital A/cs A = 11,153 B = 11,153 D = 7,435	29,741	By	Partners' Capital A/cs: (final payment)	
To	C	11,100		A	34,665
To	D	18,000		B	27,176
		1,45,841			1,45,841

Partners' Capital Accounts

	Particulars	A Rs.	B Rs.	C Rs.	D Rs.		Particulars	A Rs.	B Rs.	C Rs.	D Rs.
To	Balance b/d	--	--	48,000	18,000	By	Balance b/d	60,000	45,000	--	---
To	Realisation A/c (Loss)	11,153	11,153	7,435	7,435	By	Bank	11,153	11,153		7,435
To	C's Capital A/c (W.N.4)	25,335	19,000	---	---	By	Bank A/c (fina dividend)	--	--	11,100	---
To	Bank A/c (Final settlement)	34,665	27,176	---	---	By	Realisation A/c (Comm.)	---	1,176	---	---
						By	Bank A/c	--	--	--	18,000
						By	A's Capital A/c (W.N.4)	---	---	25,335	---
						By	B's Capital A/c (W.N.4)	---	---	19,000	---
		71,153	57,329	55,435	25,435			71,153	57,329	55,435	25,435

Working Notes:

(1) Total assets realised = Rs.(33,000+3,000+24,000+12,000+9,000) = Rs.81,000

(2) Total payment = Rs.(46,500 + 7,500) = Rs.54,000. A's loan has been paid directly.

(3) Calculation of commission payable to B:

Let B's commission = x

Realisation loss before taking into account B's commission is Rs.36,000.

Therefore, realisation loss after B's commission = Rs.36,000+x.

Share of A = 3/10 (36,000 + x) = 10,800 + 3x/10

Share of C = 2/10 (36,000+x) = 7,200 + 2x/10

Share of D = 2/10 (36,000+x) = 7,200 + 2x/10

C's deficiency = Rs.48,000 + (Rs.7,200 × 2x/10)-Rs.11,100 = Rs.44,000+x/5

Share of A in C's deficiency = 4/7 of (44,100 + x/5) = Rs.25,200 + 4x/35

A will finally get

= Rs.60,000 – (Rs.10,800 + 3x/10 + 25,200 + 4x/35)

= Rs.60,000- Rs.10,800- 3x/10-25,200-4x/35

= Rs.24,000 – (21x + 8x)/70

= Rs.24,000 – 29x/70

x = 5% [24,000 – 29x/70]

or, 5/100 [24,000 – 29x/70]

or, x = 1,200 - .02071x

or, x +.02071x = 1,200

or, x = 1,200/ 1.02071

or, x = 1175.64= 1,176 (approx.)

(4) C's deficiency of Rs. 44,335 is to be shared by A and B in their capital ratio of 60,000: 45,000 or 4:3. D will not bear any deficiency loss because his capital account has debit balance.

4. It is assumed that trade loans, bank overdraft, other loans and creditors have equal priority at the time of payment. Therefore, they all have been paid in the ratio of their dues outstanding.

Particulars		Trade Loans Rs.	Bank Overdraft Rs.	Other Loans Rs.	Creditors Rs.	Siddhart's Loan Rs.	Daksh's Capital Rs.	Yash's Capital Rs.	Siddhart's Capital Rs.
Amount due		3,00,000	3,00,000	2,00,000	2,00,000	2,00,000	3,00,000	2,00,000	1,00,000
Cash in hand	20,000								
Less: Amount kept for realization expenses	10,000								
	10,000								
Less: Distributed among outsiders (3:3:2:2)	10,000	3,000	3,000	2,000	2,000	-	-	-	-

Balance Due	Nil	2,97,000	2,97,000	1,98,000	1,98,000	2,00,000	3,00,000	2,00,000	1,00,000
Debtors realised on 1-1-2010	3,50,000								
Less: Distributed among outsiders (3:3:2:2)	3,50,000	1,05,000	1,05,000	70,000	70,000				
Balance Due	Nil	1,92,000	1,92,000	1,28,000	1,28,000	2,00,000	3,00,000	2,00,000	1,00,000
Fixed Assets realized on 15-1-2010	4,00,000								
Less: Distributed among outsiders (3:3:2:2)	4,00,000	1,20,000	1,20,000	80,000	80,000				
Balance Due	Nil	72,000	72,000	48,000	48,000	2,00,000	3,00,000	2,00,000	1,00,000
Debtors realized on 1-2-2010	50,000								
Less: Distributed among outsiders (3:3:2:2)	50,000	15,000	15,000	10,000	10,000				
Balance Due	Nil	57,000	57,000	38,000	38,000	2,00,000	3,00,000	2,00,000	1,00,000
Bills Receivable realised on 15-2-2010	1,40,000								
Less: Distributed among outsiders (3:3:2:2)	1,40,000	42,000	42,000	28,000	28,000				
Balance Due	Nil	15,000	15,000	10,000	10,000	2,00,000	3,00,000	2,00,000	1,00,000
Fixed Assets realized on 1-3-2010	50,000								
Less: Distributed among outsiders (3:3:2:2)	50,000	15,000	15,000	10,000	10,000				
Balance Due	Nil	-	-	-	-	2,00,000	3,00,000	2,00,000	1,00,000
Land and Building realised on 15-3-2010	8,00,000								
Less: Additional payment of realization expenses (20,005 – 10,000)	10,005								
	7,89,995								
Less: Payment of Siddhart's Loan	2,00,000					2,00,000			
Amount available for partners' Capital	5,89,995					-	3,00,000	2,00,000	1,00,000
Less: Daksh's Commission									

$\frac{5}{105}$ (i.e. $5,89,995 \times \frac{5}{105}$)	28,095								
	5,61,900								
Less: Siddhart's Capital is paid first because he will not share any loss on account of being minor partner	1,00,000						—	—	1,00,000
	4,61,900						3,00,000	2,00,000	-
Less: Paid to Daksh to make his capital equal to that of Yash	1,00,000						1,00,000	—	
	3,61,900						2,00,000	2,00,000	-
Less: Distributed equally between Daksh and Yash	3,61,900						1,80,950	1,80,950	
Balance Due							19,050	19,050	Nil*

*Siddhart will get 1/5 share (i.e., share of profit) of what remains after paying Rs. 19,050 to each Daksh and Yash out of the proceeds of stock-in trade. If stock does not realize any amount, then amount unpaid to Daksh and Yash will become loss on realization. Siddhart has been paid first because he is not to share any loss on realization.

5. (a) Balance Sheet as on 30.6.2010

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Accounts:			Machinery	1,50,000	
A's balance as on 1.1.2010	1,17,000		Less: Depreciation @ 10% p.a.	7,500	1,42,500
Add: Profit for 6 months	11,800		Leasehold premises	34,000	
	1,28,800		Less: Written-off @ 5%	1,700	32,300
Less: Drawings for 6 months	5,900	1,22,900	Stock		75,000
B's balance as on 1.1.2010	1,11,000		Sundry Debtors		60,000
Add: Profit for 6 months	11,800				
	1,22,800				
Less: Drawings for 6 months	5,900	1,16,900			
Sundry Creditors		50,000			
Bank overdraft		20,000			
		3,09,800			3,09,800

(b) Realisation Account

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	1,42,500	By Sundry Creditors A/c	50,000
To Leasehold Premises A/c	32,300	By Bank Overdraft A/c	20,000
To Stock A/c	75,000	By Limited Company A/c (W.N.2)	3,39,800
To Sundry Debtors A/c	60,000		
To A's Capital A/c	50,000		
To B's Capital A/c	50,000		
	4,09,800		4,09,800

(c) Partners' Capital Accounts

Date	Particulars	A	B	Date	Particulars	A	B
1.1.10	To Profit & Loss A/c	13,000	13,000	1.1.10	By Balance b/d	1,40,000	1,30,000
	To Drawings A/c	10,000	6,000				
29.6.10	To Balance c/d	1,17,000	1,11,000				
		1,40,000	1,30,000			1,40,000	1,30,000
30.6.10	To Drawings A/c	5,900	5,900	30.6.10	By Balance b/d	1,17,000	1,11,000
	To Shares in Limited Company A/c	1,72,900	1,66,900	30.6.10	By Profit & Loss Appropriation A/c	11,800	11,800
					By Realisation A/c	50,000	50,000
		1,78,800	1,72,800			1,78,800	1,72,800

Working Notes:

(1) Ascertainment of profit for the 6 months ended 30th June, 2010

Closing Assets:	Rs.	Rs.
Stock		75,000
Sundry Debtors		60,000
Machinery less depreciation		1,42,500
Leasehold premises less written off		32,300
		3,09,800

Less: Closing liabilities:		
Sundry Creditors	50,000	
Bank overdraft	20,000	70,000
Closing Net Assets		2,39,800
Less: Opening combined capital:		
A – Rs.(1,40,000 – 13,000 – 10,000)	1,17,000	
B – Rs.(1,30,000 – 13,000 – 6,000)	1,11,000	2,28,000
Profit before adjustment of drawings		11,800
Add: Combined drawings during the 6 months (equal to profit)		11,800
Profit for 6 months		23,600

(2) Ascertainment of purchase consideration:

Closing net assets (as above) Rs.2,39,800 + Goodwill Rs.1,00,000 = Rs.3,39,800.

6. Journal Entries in the Books of ABC Ltd.

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

	straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account	Dr.	48,000	
	To Employees compensation expenses account			48,000
	(Being expenses transferred to profit and loss account at the end of the year)			
31.3.2009	Employees stock option outstanding account (W.N.1)	Dr.	12,000	
	To General Reserve account (W.N.1)			12,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
30.6.2009	Bank A/c (600 x Rs.40)	Dr.	24,000	
	Employee stock option outstanding account (600 x Rs.120)	Dr.	72,000	
	To Equity share capital account (600 x Rs. 10)			6,000
	To Securities premium account (600 x Rs.150)			90,000
	(Being 600 employees stock option exercised at an exercise price of Rs. 40 each)			
01.10.2009	Employee stock option outstanding account	Dr.	12,000	
	To General reserve account			12,000
	(Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of 100 options at the end of exercise of option period)			

Working Note:

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

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

7. **Journal Entries** (Rs. in crores)

Equity share buy back Account Dr.	25	
To Bank Account		25
(Being 100 lakh equity shares bought back @ Rs.25 each)		
Equity Share Capital A/c Dr.	10	
Revenue Reserves A/c Dr.	15	
To Equity share buy back Account		25
(Being cancellation of bought back shares)		
13% Preference Share Capital A/c Dr.	75	
To Preference Shareholders A/c		75
(Being amount due to preference shareholders on redemption of preference shares)		
Revenue Reserves A/c Dr.	85	
To Capital Redemption Reserve A/c		85
(Being creation of capital redemption reserve as per requirements of section 77AA on buy back of equity shares and section 80 for redemption of preference shares out of profits)		
Preference Shareholders A/c Dr.	75	
To Bank A/c		75
(Being amount paid to preference shareholders)		

Balance Sheet as at 1.4.2010

(After Buy-back and Redemption) (Rs. in crores)

Liabilities	Amount	Asset	Amount
Authorised Capital	125	Fixed Assets	150
Issued, Subscribed, Called-up and paid up Capital:		Investments	120
Equity Shares of Rs. 10 each fully paid-up	40	Current Assets, Loans and Advances (295-100)	195
Reserves & Surplus:			

Capital Redemption Reserve	85		
Capital Reserves	50		
Revenue Reserves (250-15-85)	150		
Current Liabilities and Provisions	140		
	465		465

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

(Number of shares)

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

Calculation of underwriting commission:

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

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

= Rs.22,500.

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

= Rs. 15,000.

Working Note:

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

9. Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
1.10.2009	10% Debentures A/c	Dr.	10,00,000	
	Premium on Redemption of Debentures A/c	Dr.	40,000	
	To Debenture holders A/c			10,40,000
	(Being transfer of amount due on redemption of 10% debentures – nominal value Rs.10,00,000 plus premium Rs.40,000)			
	Debentureholders A/c	Dr.	4,16,000	
	To 11% Preference Share Capital A/c			3,20,000
	To Securities Premium A/c			96,000
	(Being issue of 3,200 preference shares of Rs.100 each at a premium of Rs.30 each in exchange of 4,000 debentures)			
1.10.2009	Debentureholders A/c	Dr.	4,99,200	
	Discount on Issue of 11% Second Debentures A/c	Dr.	20,800	
	To 11% Second Debentures A/c			5,20,000
	(Issue of 5,200 11% Second Debentures of Rs.100 each at a discount of Rs.4 in exchange of 4,800 Debentures)			
	Debentureholders A/c	Dr.	1,24,800	
	To Bank A/c			1,24,800
	(Being the redemption of 1200 debentures by cash)			

Working Notes:

(1) Redemption of debentures by issuing preference shares:

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

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

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

(3) Claim of the holders

	Rs.
Claim of the holders of 1,200 debentures @ Rs.104 (10,000 – 4,000 – 4,800 = 1,200)	1,24,800

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

Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed assets: (W.N.3C)	
Issued, subscribed and paid up share capital		Goodwill	3,80,000
92,400 Equity shares of Rs. 10 each	9,24,000	Sundry fixed assets	13,50,000

(of which 22,400 shares were issued for consideration other than cash)		(9,50,000 + 4,00,000)	
Reserves and surplus:		Investment	2,50,000
Securities premium	6,80,960	Current assets, loans and	
General reserve	3,50,000	advances:	
Profit and loss A/c 2,10,000		Stock (1,20,000 + 50,000)	1,70,000
Add: Proposed dividend		Debtors (75,000 + 80,000)	1,55,000
Cancelled 1,40,000	3,50,000	Advance tax	
Export profit reserve		(80,000 + 20,000)	1,00,000
(70,000 + 40,000)	1,10,000	Cash and bank balances	
Secured loans:		(2,75,000 + 1,30,000 – 40)	4,04,960
12% Debenture			
(1,00,000 + 1,00,000)	2,00,000	Miscellaneous	
Current liabilities and provisions:		Expenditure to the	
Sundry creditors		extent not written off:	
(40,000 + 45,000)	85,000	Preliminary expenses	10,000
Provision for tax		Amalgamation Adjustment	
(1,00,000 + 60,000)	1,60,000	A/c	40,000
	28,59,960		28,59,960

Working Notes:

1. Calculation of purchase consideration:

Equity shares of Big Ltd.	25,000 shares
Intrinsic value per share of Big Ltd. (W.N.2)	Rs. 36.2
Value of shares	Rs. 9,05,000
Intrinsic value per share of Huge Ltd. (W.N.2)	Rs. 40.4

No. of shares to be issued by Huge Ltd. Rs. 9,05,000/Rs.40.4 = 22,400.99 shares

i.e 22,400 shares and cash for fraction i.e. .99 x Rs.40.4= Rs.40

Purchase consideration

i. 22,400 shares @ Rs.40.4

Capital [Rs.10 / Share]	2,24,000			
Premium [Rs. 30.4 / Share]	6,80,960	=	Rs.	9,04,960

ii. Cash for fraction = Rs. 40

iii. Total purchase consideration payable = Rs. 9,05,000

2. Intrinsic value per share:

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

3. Valuation of goodwill

A. Capital Employed

	Huge Ltd.		Big Ltd.	
	Rs.	Rs.	Rs.	Rs.
Assets				
i. Sundry fixed assets	9,50,000		4,00,000	
ii. Investment (Non-trade)	-		-	
iii. Stock	1,20,000		50,000	
iv. Debtors	75,000		80,000	

v. Advance tax	80,000		20,000	
vi. Cash and bank balance	2,75,000	15,00,000	1,30,000	6,80,000
Liabilities:				
i. 12% Debentures	1,00,000		1,00,000	
ii. Sundry creditors	40,000		45,000	
iii. Provision for tax	1,00,000	(2,40,000)	60,000	(2,05,000)
Capital employed		12,60,000		4,75,000

B. Average pre-tax profit:

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

C. Computation of goodwill:

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

11. In the books of Rebuilt Ltd.

Journal Entries

	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity share capital A/c (Rs.50) Dr.	7,50,000	
	To Equity share capital A/c (Rs. 2.50)		37,500

	To Reconstruction A/c			7,12,500
	(Being equity capital reduced to nominal value of Rs.2.50 each)			
2.	Bank A/c	Dr.	1,12,500	
	To Equity share capital			1,12,500
	(Being 3 right shares against each share was issued and subscribed)			
3.	7% Preference share capital A/c (Rs.50)	Dr.	6,00,000	
	Reconstruction A/c	Dr.	60,000	
	To 5% Preference share capital (Rs.10)			4,80,000
	To equity share capital (Rs.50)			1,80,000
	(Being 7% preference shares of Rs.50 each converted to 5% preference shares of Rs.10 each and also given to them 6 equity shares for every share held)			
4.	Loan A/c	Dr.	1,50,000	
	To 5% Preference share capital A/c			1,20,000
	To Equity share capital A/c			30,000
	(Being loan to the extent of Rs.1,50,000 converted into share capital)			
5.	Bank A/c	Dr.	1,00,000	
	To Equity share application money A/c			1,00,000
	(Being shares subscribed by the directors)			
6.	Equity share application money A/c	Dr.	1,00,000	
	To Equity share capital A/c			1,00,000
	(Being application money transferred to capital A/c)			
7.	Loan A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being loan repaid)			
8.	Reconstruction A/c	Dr.	6,52,500	
	To Preliminary expenses A/c			11,000
	To Profit and loss A/c			4,40,000
	To Plant A/c			35,000
	To Trademarks and Goodwill A/c (Bal.fig.)			1,66,500
	(Being losses and assets written off to the extent required)			

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

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

12. In the books of Sum up Ltd.

Liquidator's Statement of Account

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

		By Final Payment to equity shareholders: 2,000 equity shares of Rs. 100 each fully paid up @ Rs. 10 per share (W.N.2)	20,000
	4,91,000		4,91,000

Working Notes:

(1) Deficiency/Surplus to equity shareholders

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

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

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

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

13. Calculation of unexpired discounts or rebate on bills discounted

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

March 6	July 9	100	4,00,000	11	44,000	12,055 $\left\{44{,}000 \times \frac{100}{365}\right)$
March 16	May 19	49	2,00,000	10	20,000	2,685 $\left\{20{,}000 \times \frac{49}{365}\right)$
						34,301

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

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

Discount Account

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

Journal Entries

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

Balance Sheet (An extract)

As at 31.3.2010

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

14. **Sanchay Bank**

Profit & Loss Account

For the year ended 31st March, 2010

		Schedule No.	Year ended 31.3.2010 Rs.(000)
I.	*Income*		
	Interest Earned	13	7,420
	Other Income	14	82
	Total		7,502
II.	*Expenditure*		
	Interest Expended	15	3,850
	Operating Expenses	16	822
	Provisions & Contingencies		200
	Total		4,872
III.	*Profit/Loss*		
	Net Profit for the year		2,630
	Profit brought forward		---
	Total		2,630
IV.	*Appropriations:*		
	Transfer to Statutory Reserve (25% of Rs.2,630)		658
	Transfer to Other Reserves		1,557
	Transfer to Central Government		200
	Balance carried over to Balance Sheet		215
			2,630

Working Notes:

Schedule 13 – Interest Earned

		Rs.('000)
1.	Interest/discount on advances/bills (2,590+ 1,550 + 2,230 + 1,540 – 490)	7,420
2.	Interest on investments	--
3.	Interest on balances with RBI & other interbank funds	---
4.	Others	---
		7,420

Schedule 14 – Other Income

		Rs.('000)
1.	Commission, exchange and brokerage	82
2.	Profit /(Loss) on sale of investment	-
3.	Profit /(Loss) on revaluation of investment	-
4.	Profit /(Loss) on sale of land, building and other assets	-
5.	Income earned by way of dividends etc. from subsidiaries, companies and/or joint ventures abroad/in India	-
6.	Miscellaneous income	-
		82

Schedule 15 – Interest Expended

		Rs.('000)
1.	Interest on Deposits (3,170 + 680)	3,850
2.	Interest on Reserve Bank of India/inter-bank borrowings	-
3.	Others	-
		3,850

Schedule 16 – Operating Expenses

		Rs.('000)
I.	Payment to Employees	540
II.	Rent, Taxes & Lighting	180
III.	Printing and Stationery	29
IV.	Directors' Fee, Allowances and Expenses	30
V.	Auditors' Fee & Expenses	12
VI.	Postage, Telegrams & Telephones	14
VII.	Sundry Charges	17
		822

15. **Form B - RA**

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA: ……………..

Revenue Account for the year ended 31st March, 2010

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

Form B – PL

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA: ……………..

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

	Particulars	Schedule	Current Year (Rs. In Lakhs)	Previous Year (Rs. In Lakhs)
1.	Operating Profit from marine insurance		21.00	
2.	Income from investments		-	

3.	Other Income		-	
	Total (A)		21.00	
4.	Provision (other than taxation)			
	Diminution in the value of investment in shares 2.00			
	Less: increment in the value of investment in govt. securities (5.00)		(3.00)	
5.	Other expenses		-	
	Total (B)		(3.00)	
	Profit before tax A-B [i.e. 21 – (-3)]		24.00	
	Less: Provision for taxation		(13.65)	
	Total		10.35	
	Appropriations		Nil	
	Balance of profit/loss bought forward from last year		10.00	
	Balance carried forward to Balance Sheet		20.35	

Schedule 1: Premium Earned (Net)

Particulars	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
Premium from direct business	50.00	
Add: Premium on re-insurance accepted	5.00	
	55.00	
Less: Premium on re-insurance ceded	10.00	
Net Premium	45.00	
Adjustment for change in reserve for unexpired risk [(opening) 60 – (Closing) 45]	15.00	
	60.00	

Schedule 2: Claims incurred (Net)

Particulars	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
Claims paid		
Direct	25.00	
Add: Reinsurance accepted	4.00	

	29.00	
Less: Reinsurance ceded	5.00	
Net Claims paid	24.00	
Add: Claims outstanding at the end of the year	30.00	
	54.00	
Less: Claims outstanding at the beginning of the year	20.00	
Total claims incurred	34.00	

Schedule 3: Commission

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

Schedule 4: Operating Expenses

Particulars	Current Year (Rs.in Lakhs)	Previous Year (Rs.in Lakhs)
Expenses of Management	5.00	
Bad Debts	10.00	
Other expenses	1.25	
	16.25	

Working Note:

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

16. **Electric Supply Co.**

Journal Entries

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

Mains Account

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

Replacement Account

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

Working Notes:

(1) Calculation of Current Replacement Cost

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

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

		Rs.
Current Replacement Cost		11,21,175
Less: Re-use of material	13,800	
Sale of Material	25,200	39,000
Charge to Revenue		10,82,175

(3) Amount to be capitalized:

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

17. (a) Calculation of Clear Profit

	Rs.	Rs.
Income derived from:		
Sale of energy		12,40,000
Meter rents		90,000
Transfer fees		1,000
Contingency reserve investment income		5,000
Interest on bank deposits		600
		13,36,600
Less: Expenses:		
Cost of generation	6,05,000	
Distribution and selling expenses	65,000	
Rent, rates and taxes	18,000	

Interest on loan from Electricity Board	9,000	
Interest on security deposits	1,000	
Audit fees	5,000	
Management expenses	90,000	
Depreciation	60,000	
Contribution to Provident Fund	32,000	8,85,000
		4,51,600
Less: Special Appropriations:		
Intangible assets written off	3,000	
Transfer to Contingency Reserve	8,000	11,000
Clear Profit		4,40,600

(b) Calculation of Capital Base

	Rs.	Rs.
Original Cost of Fixed Assets	27,00,000	
Less: Contribution from consumers	2,00,000	25,00,000
Cost of intangible assets		50,000
Contingency reserve investments		50,000
Working Capital [½ (40,000 + 60,000)+ ½(30,000 + 50,000)]		90,000
		26,90,000
Less: Depreciation written off (5,00,000+60,000)	5,60,000	
Intangible assets written off (40,000+3,000)	43,000	
Loan from Electricity Board	90,000	
Tariffs & Dividend Control Reserve	80,000	
Security Deposits of Customers	20,000	
Development Reserve	1,20,000	
Amount carried forward for distribution to consumers	15,000	9,28,000
Capital Base		17,62,000

(c) Calculation of Reasonable Return

	Rs.
Bank rate 8% + 2% = 10% on Capital Base of Rs.17,62,000.	1,76,200
Add: Interest income on bank deposits	600
½% on Bank loan from Electricity Board Rs.90,000	450
½% on development reserve Rs.1,20,000	600
Reasonable Return	1,77,850

(d) Disposal of surplus

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

(e) Statement of disposal

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

18. Trading and Profit and Loss Account

for the year ending on 31st March 2010

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

Balance Sheet as at 31st March, 2010

Liabilities		Rs.	Assets		Rs.
Capital	40,000		Stock-in-trade:		
Add: Net Profit	42,910		H.O.: Packed	43,200	
	82,910		Unpacked	5,000	
Less: Drawings	10,000	72,910	Packing Material	1,000	49,200
Sundry Creditors:			Branch: In hand	16,460	
H.O.	26,600		In transit	5,400	
Branch	5,000	31,600		21,860	
			Less: Unrealised Profit	2,350	19,510
			Sundry Debtors: H.O.	28,000	
			Branch	4,200	32,200
			Cash at Bank		2,000
			Cash-in-transit		1,600
		1,04,510			1,04,510

Working Notes:

				Rs.
(i)	Gross Profit made by Head Office (20% of Sales of Rs. 3,20,000)			64,000
	10/90 of Goods sent to Branch [(Rs. 1,08,000 + Rs. 5,400) x 1/9]			12,600
	(Since Invoice Price is 90% of normal selling price)			76,600
(ii)	The Gross Profit made by branch is 10% of sales (10% of Rs. 1,00,000)			10,000
(iii)	The amount to be written off at invoice value at branch is:			
	Amount written off on damaged goods		1,090	
	Invoice price of deficit in stock (Rs. 500 x 90/100)		450	1,540
(iv)	Value of damaged goods included in Closing Stock			
	A.	Selling Price of Goods Damaged		2,000
	B.	Invoice Price of Goods Damaged (Rs. 2,000 x 90/100)		1,800
	C.	Amount already written off		1,090
	D.	Amount still included in Closing Stock (B – C)		710

(v)	Calculation of Stock Reserve Required		
	A.	Stock (as per Trading Account)	16,460
	B.	Less: Value of damaged goods included	710
	C.	Value of undamaged in hand (A – B)	15,750
	D.	Add: Goods-in-transit	5,400
	E.	Value to Total Goods (C + D)	21,150
	F.	Stock Reserve required (Rs. 21,150 x 10/90)	2,350

19. Departmental Trading Account

For the year ending 31st December, 2009

	A Rs.	B Rs.	C Rs.		A Rs.	B Rs.	C Rs.
To Opening stock	24,000	36,000	12,000	By Sales	1,72,500	1,59,400	74,600
To Purchases	1,46,000	1,24,000	48,000	By Closing stock	30,000	40,000	10,000
To Gross Profit	32,500	39,400	24,600				
	2,02,500	1,99,400	84,600		2,02,500	1,99,400	84,600

Working Notes:

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

		Rs.	Rs.	Rs.
(2)	Ascertainment of closing stocks:			
	Opening stocks	24,000	36,000	12,000
	Purchases	1,46,000	1,24,000	48,000
		1,70,000	1,60,000	60,000
	Less: Cost of goods sold	1,40,000	1,20,000	50,000
	Closing stocks	30,000	40,000	10,000

20. Statement of liability as contributories of former members

Creditors outstanding on the date of transfer (ceasing to be member)			Q	R/X	S	U	Amount to be paid to creditors
No. of Shares			400	200	700	1,000	
2009		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Feb. 15		12,500	2,174	1,087	3,804	5,435	12,500
Feb. 28	15,000						
	(12,500)	2,500	–	263	921	1,316	2,500
March 15	18,000						
	(15,000)	3,000	–	316	1,105	1,579	3,000
April 5	30,000						
	(18,000)	12,000		2,000		10,000	12,000
Total (a)		30,000	2,174	3,666	5,830	18,330	30,000
Maximum Liablity @ Rs. 20 per share on shares held (b)			8,000	4,000	14,000	20,000	
Lower of (a) and (b)			2,174	3,666	5,830	18,330	

Working Note :

The transferors are P, Q, S, T and U. X to whom shares were transmitted on demise of his father R would be liable as an existing member contributory. He steps into the shoes of his deceased father under section 430. His maximum liability would be at Rs. 20 per share on 200 shares received on transmission i.e. for Rs. 4,000.

P will not be liable to pay any amount as the winding up proceedings commenced after one year from the date of the transfer. T also will not be liable as the transferee Z has paid the balance Rs.20 per share as call in advance. Q, R/X, S and U will be liable, as former members, to the maximum extent as indicated, provided the transferees do not pay the calls.

PAPER – 5 : ADVANCED ACCOUNTING

21. **(a)** No, the borrowing cost for the period in which no activity for the construction of building has been started, cannot be capitalised.

(b) AS 20, 'Earnings per Share' requires disclosure of both basic and diluted EPS even when there is a loss per share.

(c) (a) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', prior period items are incomes or expenses arising out of errors in one or more prior accounting periods. The question is "whether co. has committed an error in 2008-09 by not recognising the subsidy?" The answer is there was no error, AS 12 (para 13) permits recognition of grant only when there is reasonable assurance that (i) the enterprise will comply with the conditions attached to them, (ii) the subsidy will be received. Mere making application does not provide the reasonable assurance that the subsidy will be received. Letter of sanction from IREDA is required to provide this assurance. Hence the company was not recognising the grant. Further, AS 4 requires adjustment of events occurring after the balance sheet date only up to the date of approval of accounts by the Board of Directors. In view of this, the company is correct in not adjusting the same in the accounts for the year 2008-09. Hence, this is not a prior period item.

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

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

(d) Para 3.2 of AS 4 (Revised) on 'Contingencies and Events Occurring after the Balance Sheet Date' defines events occurring after the balance sheet date as significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors in the case of a company. The given case is discussed in the light of the above mentioned definition and requirements given in paras 13-15 of the said AS 4 (Revised).

In this case the incidence, which was expected to push up cost became evident after the date of approval of the accounts. So that was not an 'event occurring after the balance sheet date'. However, this may be mentioned in the Directors' Report.

22. **(a)** The error in recording of closing stock of the year ended 31st March, 2009 must have also resulted in overstatement of profits of previous year, brought forward to the current year ended 31st March, 2010. Vide para 4 of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, the rectifications as required in the current year are 'Prior Period Items'. Accordingly, Rs. 20,000 should be deducted from opening stock in the profit and loss account. and Rs. 20,000 should be charged as prior period adjustment in the profit and loss account for the year ended 31st March 2010 in accordance with para 15 of AS 5 (Revised), which requires that the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

(b) The financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures described in paragraphs 8 to 16 of AS 11 (Revised 2003). The individual items in the financial statements of a foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself.

Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of transaction. For practical reasons, a rate that approximates the actual rate at the date of transaction is often used, for example, an average rate for a week or a month may be used for all transactions in each foreign currency during the period. The foreign currency monetary items (for example cash, receivables, payables) should be reported using the closing rate at each balance sheet date. Non-monetary items (for example, fixed assets, inventories, investments in equity shares) which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of transaction. Thus the cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If the fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realisable value is determined which is generally closing rate.

Exchange difference arising on the translation of the financial statements of integral foreign operation should be charged to profit and loss account. Exchange difference arising on the translation of the financial statement of foreign operation may have tax effect which should be dealt as per AS 22 'Accounting for Taxes on Income'.

Thus, the treatment by the management of translating all assets and liabilities; income and expenditure items in respect of foreign branches at the prevailing rate at the year end and also the treatment of resultant exchange difference is not in consonance with AS 11 (Revised 2003).

Note: The above answer has been given on the basis that the foreign branches referred in the question are integral foreign operations.

(c) As per para 41 of AS 26 'Intangible Assets', no intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred. Thus the company cannot treat the expenditure as deferred revenue expenditure. The entire amount of Rs. 33 lakhs spent on research project should be charged as an expense in the year ended 31st March, 2010.

(d) In accordance with AS 29 'Provisions, Contingent Liabilities and Contingent Assets' and ASI 30 'Applicability of AS 29 to Onerous Contracts', if an enterprise has a contract that is onerous, the present obligation under the contract should be recognised 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 31.12.2010 will be nil. However, the lessee, Mini Ltd., has to pay lease rent of Rs. 66,00,000 (i.e.2,00,000 p.m. for next 33 months).

Therefore, provision on account of Rs.66,00,000 is to be provided in the accounts for the year ending 31.03.08. Hence auditor is right.

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

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

(ii) In the given case, the company spent Rs. 45 lakhs for publicity and research of a new product which was marketed but proved to be a failure. It is clear that in future there will be no related further revenue/benefit because of the failure of the product. Thus according to paras 41 to 43 of AS 26 'Intangible Assets', the company should charge the total amount of Rs. 45 lakhs as an expense in the profit and loss account.

(b) As per paras 8.2 and 13 of Accounting Standard 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', Assets and Liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist estimation of amounts relating to conditions existing at the balance sheet date.

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

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

(c) As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Sundry creditors is a monetary item, hence should be valued at the closing rate i.e, Rs.48 at 31st March, 2010 irrespective of the payment for the same subsequently at lower rate in the next financial year. The

[*] 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.

difference of Rs.5 (48-43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2010 and is not to be adjusted against the cost of raw- materials. In the subsequent year, the company would record an exchange gain of Re.1 per US dollar, i.e., the difference between Rs.48 and Rs.47 per Us dollar. Hence, the accounting treatment adopted by the company is incorrect.

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

I Method

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

II Method

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

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

Deferred Government Grant A/c	Dr.	1	
To Profit and Loss A/c			1

(b)

	Rs.
Interest for 2008-09 (1.7.2008 to 30.3.2009) = 10,00,000 x $\frac{12}{100}$ x $\frac{9}{12}$	90,000
Less: Interest earned on surplus funds	15,000
Borrowing cost to be capitalised with asset 'A'	75,000

Interest for 2009-10 (upto 30.6.2009) = 10,00,000 x $\frac{12}{100}$ x $\frac{3}{12}$	30,000
Rs. 2 lakhs is repaid after one year i.e. on 30.6.2009 (1.7.09 to 31.3.10)	
= 8,00,000 x $\frac{12}{100}$ x $\frac{9}{12}$	72,000
Borrowing cost	1,02,000

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

(c)

Net profit		Rs. 2,00,000
Less : Preference Dividend 5,00,000 x 10%	50,000	
Corporate Dividend tax 15%	7,500	Rs. 57,500
Net profit attributable to equity shareholders		Rs.1,42,500

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

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

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

25. (a) As per para 23 of AS 26 'Intangible Assets' intangible assets should be measured initially at cost. Therefore, Devansh Co. Ltd. should amortise the trademark at its cost of Rs.10,00,000. The unamortised cost on the seller's books (Rs.5,00,000) is irrelevant to the buyer. Although the trademark has a remaining useful life of 20 years, intangible assets are generally amorised over a maximum period of 10 years per AS 26. Therefore, for the year 2009, amortisation expense and accumulated amortisation is 1,00,000 (Rs.10,00,000 ÷ 10 years).

(b) Present value of residual value = Rs. 40,000 × 0.7513 = Rs. 30,052

Present value of lease payments = Rs. 3,00,000 – Rs. 30,052 = Rs. 2,69,948.

The present value of lease payments being 89.98% $\left\{\frac{2,69,948}{3,00,000}\times 100\right)$ of the fair value, i.e. being a substantial portion thereof, the lease constitutes a finance lease.

Note: AS 4, 5, 11, 12, 16, 19, 20, 26 & 29 are applicable for November, 2010 Examination.

Appendix

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

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

DATED 31-3-2009

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

1. (1) These rules may be called the Companies (Accounting Standards) Amendment Rules, 2009.

   (2) They shall come into force on the date of their publication in the Official Gazette.

2. In the Companies (Accounting Standard) Rules, 2006, in the Annexure, under the heading "B. ACCOUNTING STANDARDS", in the sub-heading "Accounting Standard (AS) 11" relating to "The Effects of Changes in Foreign Exchange Rates", after paragraph 45, the following shall be inserted, namely:-

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

PAPER – 5 : ADVANCED ACCOUNTING

QUESTIONS

Partnership Accounts- Amalgamation of two firms

1. Firm X & Co. consists of partners A and B sharing Profits and Losses in the ratio of 3 : 2. The firm Y & Co. consists of partners B and C sharing Profits and Losses in the ratio of 5 : 3.

   On 31st March, 2010 it was decided to amalgamate both the firms and form a new firm XY & Co., wherein A, B and C would be partners sharing Profits and Losses in the ratio of 4:5:1.

Balance Sheet as at 31.3.2006

Liabilities	X & Co.,	Y & Co.	Assets	X & Co.	Y & Co.
	Rs.	Rs.		Rs.	Rs.
Capital:			Cash in hand/bank	40,000	30,000
A	1,50,000	---	Debtors	60,000	80,000
B	1,00,000	75,000	Stock	50,000	20,000
C	---	50,000	Vehicles	---	90,000
Reserve	50,000	40,000	Machinery	1,20,000	---
Creditors	1,20,000	55,000	Building	1,50,000	---
	4,20,000	2,20,000		4,20,000	2,20,000

The following were the terms of amalgamation:

(i) Goodwill of X & Co., was valued at Rs.75,000. Goodwill of Y & Co. was valued at Rs.40,000. Goodwill account not to be opened in the books of the new firm but adjusted through the Capital accounts of the partners.

(ii) Building, Machinery and Vehicles are to be taken over at Rs.2,00,000, Rs.1,00,000 and Rs.74,000 respectively.

(iii) Provision for doubtful debts at Rs.5,000 in respect of X & Co. and Rs.4,000 in respect of Y & Co. are to be provided.

You are required to:

(i) Show, how the Goodwill value is adjusted amongst the partners.

(ii) Prepare the Balance Sheet of XY & Co. as at 31.3.2010 by keeping partners capital in their profit sharing ratio by taking capital of 'B' as the basis. The excess or deficiency to be kept in the respective Partners' Current account.

Partnership Accounts- Sale to a Company

2. A, B and C were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capitals or drawings.

A died on 31.12.2009 and on that date, the partners' balance were as under:

Capital Account : A – Rs.60,000; B- Rs.40,000; C- Rs.20,000

Current Account: A – Rs.29,000; B – Rs.20,000; C – Rs.5,000 (Dr.).

By the partnership agreement, the sum due to A's estate was required to be paid within a period of 3 years, and minimum instalment of Rs.20,000 each were to be paid, the first such instalment falling due immediately after death and the subsequent instalments at half-yearly intervals. Interest @ 5% p.a. was to be credited half-yearly.

In ascertaining his share, goodwill (not recorded in the books) was to be valued at Rs.60,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at Rs.36,000 in excess of the book values.

No Goodwill Account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at Rs.20,000 matured on 1.1.2009, realising Rs.26,000; payments of Rs.20,000 each were made to A's Executors on 1.1.2009, 30.6.2009 and 31.12.2009. B and C continued trading on the same terms as previously and the net profit for the year to 31.12.2009 (before charging the interest due to A's estate) amounted to Rs.32,000. During that period, the partners drawings were: B- Rs.15,000; and C- Rs.8,000.

On 1.1.2010, the partnership was dissolved and an offer to purchase the business as a going concern for Rs.1,40,000 was accepted on that day. A cheque for that sum was received on 30.6.2010.

The balance due to A's estate, including interest, was paid on 30.6.2010 and on that day, B and C received the sums due to them.

You are required to write-up the Partners' Capital and Current Accounts from 1.1.2009 to 30.6.2010. Show also the account of the executors of A.

Partnership Accounts- Dissolution of a Partnership Firm

3. P, Q and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2009 is as follows:

Liabilities		Rs.	Assets	Rs.
Capital accounts			Plant and Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the business. The following are the amounts realized:

	Rs.
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to Rs.1,500. There was an unrecorded asset of Rs.6,000 which was taken over by Q at Rs.4,800. A bill for Rs.4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

(i) Realisation account.

(ii) Partners' capital accounts.

(iii) Cash account.

Employee Stock Option Plans

4. S Ltd. grants 1,000 options to its employees on 1.4.2007 at Rs.60. The vesting period is two and a half years. The maximum period is one year. Market price on that date is Rs.90. All the options were exercised on 31.7.2010. Journalize, if the face value of equity share is Rs.10 per share.

Buy- back of Shares

5. Dee Limited furnishes the following Balance Sheet as at 31st March, 2010:

	Rs.'000	Rs.'000
Liabilities		
Share capital:		
Authorised capital		30,00
Issued and subscribed capital:		
2,50,000 Equity shares of Rs.10 each fully paid up	25,00	
2,000, 10% Preference shares of Rs.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 account	35,00	97,00
Current liabilities and provisions:		14,00
		1,38,00
Assets		
Fixed assets		93,00
Investments		30,00
Current assets, loans and advances (including cash and bank balance)		15,00
		1,38,00

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

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

Underwriting of Shares

6. 'X' Ltd., issued 1,00,000 equity shares of Rs.10 each at par. The entire issue was underwritten as follows:

   A – 60,000 shares (Firm underwriting 8,000 shares)

   B- 30,000 shares (Firm underwriting 10,000 shares)

   C- 10,000 shares (Firm underwriting 2,000 shares)

   The total applications including firm underwriting were for 80,000 shares.

   The marked applications were as follows:

   A- 20,000 shares; B- 14,000 shares; C-6,000 shares.

   The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten. Determine the liability of each underwriter.

Redemption of Debentures

7. A Company had issued 20,000, 13% Convertible debentures of Rs.100 each on 1st April, 2007. The debentures are due for redemption on 1st July, 2009. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentureholders to convert 20% of their holding into equity shares (Nominal value Rs.10) at a price of Rs.15 per share. Debentureholders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debentureholders exercising the option to the maximum.

Amalgamation of Companies

8. Following are the summarised Balance Sheets of A Ltd. and B Ltd. as at 31.3.2008:

Particulars	A Ltd.	B Ltd.
Share capital: Equity shares 10 each (fully paid up)	10,00,000	6,00,000
Securities premium	2,00,000	-
General reserve	3,00,000	2,50,000
Profit and loss account	1,80,000	1,60,000
10% Debentures	5,00,000	-
Secured loan	-	3,00,000
Sundry creditors	2,60,000	1,70,000
	24,40,000	14,80,000
Land and building	9,00,000	4,50,000
Plant and machinery	5,00,000	3,80,000
Investment (5,000 shares of B Ltd.)	80,000	-
Stock	5,20,000	3,50,000
Debtors	4,10,000	2,60,000
Cash at bank	30,000	40,000
	24,40,000	14,80,000

The companies agree on a scheme of amalgamation on the following terms:

(i) A new company is to be formed by name AB Ltd.

(ii) AB Ltd. to take over all the assets and liabilities of the existing companies.

(iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under:

A Ltd. = Rs.18 per share

B Ltd. = Rs.20 per share

(iv) A contingent liability of A Ltd. of Rs.60,000 is to be treated as actual existing liability.

(v) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd. at a premium of Rs.6 per share.

(vi) The face value of shares of AB Ltd. are to be of Rs.10 each.

You are required to:

(i) Calculate the purchase consideration (i.e., number of shares to be issued to A Ltd. and B Ltd.).

(ii) Pass journal entries in the books of A Ltd. for the transfer of assets and liabilities.

(iii) Pass journal entries in the books of AB Ltd. for acquisition of A Ltd. and B Ltd.

(iv) Prepare the Balance Sheet of AB Ltd.

Internal Reconstruction of a Company

9. Paradise Limited which had experienced trading difficulties, decided to reorganize its finances. On March 31, 2010, a final Trial Balance extracted from the books of the company showed the following position:

	Dr.	Cr.
	Rs.	Rs.
Share Capital, Authorized and issued:		
1,500 6% Cumulative Preference Shares of Rs 100 each		1,50,000
2,000 Equity Shares of Rs. 100 each		2,00,000
Capital Reserve		36,000
Profit and Loss Account	1,10,375	
Preliminary Expenses	7,250	
Goodwill at Cost	50,000	
Trade Creditors		42,500
Debtors	30,200	
Bank Overdraft		51,000
Leasehold Property at Cost	80,000	
Provision for Depreciation on Leasehold Property		30,000
Plant and Machinery at Cost	2,10,000	
Provision for Depreciation on Plant and Machinery		57,500
Stock-in-Trade	79,175	
	5,67,000	5,67,000

(a) The approval of the Court was obtained for the following scheme for reduction of Capital.

(b) The Preference Shares to be reduced to Rs. 75 per share.

(c) The Equity Shares to be reduced to Rs. 12.50 per share

(d) One Rs. 12.50 Equity Share to be issued for each Rs. 100 of Gross Preference Dividend Arrears, the Preference Dividend had not been paid for three years.

(e) The balance in Capital Reserve Account to be utilized.

(f) Plant and Machinery to be written down to Rs. 75,000.

(g) The Profit and Loss Account balance and all intangible assets to be written off.

At the same time as the resolution to reduce capital was passed, another resolution was approved restoring the total Authorised Capital to Rs. 3,50,000 consisting of 1,500 6% Cumulative Preference Shares of Rs. 75 each and the balance in Equity Shares of Rs. 12.50. As soon as the above resolutions had been passed 5,000 Equity Shares were issued at par, for cash, payable in full as application money. The same were fully subscribed and paid.

You are required:

(i) To show the Journal entries necessary to record the above transactions in the Company's books, and

(ii) To prepare the Balance Sheet of the Company, after completion of the reconstruction scheme.

Liquidator's Statement of Account

10. The summarised Balance Sheet of Fullstop Limited as on 31-3-2010, being the date of voluntary winding up is as under:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Land and Building	3,86,000
10,000, 12% Cumulative		Plant & Machinery	8,21,000
preference shares of		Stock in Trade	1,84,000
Rs. 100 each fully paid up	10,00,000	Book Debts	13,37,000
Equity Share Capital:		Profit and Loss Account	3,72,000
5,000 Equity shares of			
Rs. 100 each Rs. 60 per			
share called and paid up	3,00,000		
5,000 Equity shares of			
Rs. 100 each Rs. 50 per			
share called and paid up	2,50,000		
15% Debentures	4,00,000		
Preferential Creditors	1,05,000		
Bank Overdraft	3,03,000		
Trade Creditors	7,42,000		
	31,00,000		31,00,000

Preference dividend is in arrears for two years. By 31.3.2010 the assets realised were as follows:

	Rs.
Land and Building	9,84,000
Stock in Trade	1,63,000
Plant and Machinery	7,12,000
Book Debts	11,91,000

Expenses of liquidation is Rs. 54,000. The remuneration of the liquidator is 3 per cent of the realization of assets. Income-tax payable on liquidation is Rs. 44,500. Assuming that the final payments were made on 31.3.2010, prepare the Liquidator's Statement of Account.

Financial Statements of Banking Companies

11. (a) The following facts have been taken out from the records of Centra Bank Ltd. as on 31st March, 2009:

	Rs.	Rs.
Rebate on bill discounted (not due on March 31st, 2008)		45,800
Discount received		2,02,500
Bill discounted	12,25,000	

An analysis of the bills discounted is as follows:

	Amount Rs.	Due date 2009	Rate of discount
(i)	3,75,000	April 8	12%
(ii)	1,50,000	May 5	14%
(iii)	2,20,000	June 12	14%
(iv)	4,80,000	July 15	15%

You are required to:-

(i) Calculate Rebate on Bill Discounted as on 31st March, 2009.

(ii) The amount of discount to be credited to the profit and loss account.

(iii) Show necessary journal entries in the books of Centra Bank Ltd. as on 31st March, 2009.

(b) Find out the income to be recognised by Yash Bank Limited for the year ended 31.3.2010 in respect of interest on advances as detailed below:

	Performing Assets		Non Performing Assets	
	Interest earned	Interest received	Interest earned	Interest received
				(Rs. in lakhs)
Term loan	240	160	150	10
Cash credits and overdrafts	1,500	1,240	300	24
Bills purchased and discounted	300	300	100	40

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Financial Statements of Insurance Companies

12. On 31st March, 2009 the books of Beta Insurance Company Limited, contained the following particulars in respect of fire insurance:

Particulars	Amount Rs.
Reserve for unexpired risks on March 31, 2008	5,00,000
Additional Reserve for unexpired risks on March 31, 2008	1,00,000
Premiums	11,20,000
Claims paid	6,40,000
Estimated liability in respect of outstanding claims:	
On March 31, 2008	65,000
On March 31, 2009	90,000
Expenses of management (including Rs.30,000 legal expenses paid in connection with the claims)	2,80,000
Interest and dividend	64,250
Income tax on the above	6,520
Profit on sale of investments	11,000
Commission paid	1,52,000

On 31st March, 2009 provide Rs.5,60,000 as unexpired risk reserve and Rs.75,000 as additional reserve.

You are required to prepare the Fire Insurance Revenue account as per regulations of IRDA, for the year ended 31st March, 2009.

Financial Statements of Electricity Supply Companies

13. Surya Electricity Company provides you the following information:

Particulars	(Rs. in lakhs)
Fixed Assets (Cost)	200
Depreciation Reserve on Fixed Assets	50
Customer's contribution towards Fixed Assets	1
Intangible Assets	6
Intangible Assets written-off	1
Average of Current Assets (Including Debtors worth Rs.2 lakhs)	22
5% Contingency Reserve Investments	10
4.5% Reserve Fund Investments	50

Loans from Electricity Board	30
Loans from Approved Institutions	10
8% Debentures	20
Development Reserve	10
Security Deposit	55
Tariff and Dividend Control Reserve	4
Licensee's A/c	1
Net Profit before interest on Debentures for the year ended March 31, 2010	8.88
Reserve Bank Rate	5%

Calculate:

(i) Capital Base

(ii) Reasonable Return

(iii) Surplus

(iv) Statement showing disposal of surplus, and

(v) Statement showing the disposal of profits.

Taxation may be ignored.

Departmental Accounts

14. Om Ltd. has three departments and submits the following information for the year ending on 31st March, 2010:

	A	B	C	Total (Rs.)
Purchases (units)	6,000	12,000	14,400	
Purchases (Amount)				6,00,000
Sales (Units)	6,120	11,520	14,976	
Selling Price (Rs. per unit)	40	45	50	
Closing Stock (Units)	600	960	36	

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

Branch Accounts

15. Goods sent to a branch were charged by the head office at cost plus 10 percent. Head Office makes a uniform gross profit of 33-1/3% on selling price. The Branch sells goods at a uniform gross profit of 25% on selling price. The following transactions have taken place during the year ended on 31st March 2010.

(a) Head Office purchases amounted to Rs. 15,02,350, purchases returns were Rs. 1,00,000 and discount allowed by suppliers amounted to Rs. 30,090.

(b) Sales by Head Office amounted to Rs. 10,80,000. Goods sent to branch were Rs. 5,44,500 (at invoice price), discount allowed to customers amounted to Rs. 9,180.

(c) Goods sent to Branch for Rs. 66,000 in March, were not received at the Branch until April.

(d) Branch purchased goods locally for Rs. 1,87,500, discount allowed by suppliers amounted to Rs. 4,875.

(e) Overhead expenses of Head Office were Rs. 2,80,260, and of Branch Rs. 80,475.

(f) Sales by the Branch amounted to Rs. 7,20,000, discount allowed to customers amounted to Rs. 5,640 and cost of goods lost-in-transit was Rs. 8,010.

(g) Branch Stock as on 31st March, included stock invoiced by Head Office at Rs. 1,15,500.

Prepare columnar Trading and Profit and Loss Account of Head Office and the Branch for the year ending 31st March 2010.

Accounting Standards

16. (a) A Company entered into an agreement to sell its immovable property to another company for 35 lakhs. The property was shown in the Balance Sheet at Rs.7 lakhs. The agreement to sell was concluded on 15th February, 2009 and sale deed was registered on 30th April, 2009.

You are required to state, with reasons, how this event would be dealt with in the financial statements for the year ended 31st March, 2009.

(b) Goods of Rs.5,00,000 were destroyed due to flood in September, 2006. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim.

In March, 2009, the claim was passed and the company received a payment of Rs.3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2009.

(c) Write a short note on 'treatment of refund of government grants'.

17. (a) Explain the treatment of borrowing costs in line with the provisions of AS 16.

(b) Explain the types of lease as per AS 19.

(c) XYZ Ltd. is showing an intangible asset at Rs. 72 lakhs as on 01.04.2010 and that item was required for Rs. 96 lakhs on 01.04.2007 and that item was available for use from that date. Himalayas Ltd. has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to relevant accounting standard.

18. (a) While preparing its final accounts for the year ended 31st March, 2010, a company

made a provision for bad debts @ 5% of its total debtors. In the last week of February 2010, a debtor for 2 lakhs had suffered heavy loss due to earthquake. The loss was not covered by any insurance policy. In April, 2010, the debtor became bankrupt. Can the company provide for full loss arising out of insolvency of debtor in the final accounts for year ended 31st March, 2010?

(b) Mega Ltd. makes provision for expenses worth Rs.7,00,000 for the year ending March 31, 2009, but the actual expenses during the year ending March 31, 2010 comes to Rs.9,00,000 against provision made during the last year. State with reasons whether difference of Rs.2,00,000 is to be treated as prior period item as per AS 5.

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

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

19. (a) Supriya Ltd. received a grant of Rs.2,500 lakhs during the last accounting year (2008-09) 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 2009-10, 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.

(b) Parvesh Ltd. had the following borrowings during a year in respect of capital expansion:

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

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks:

(1) Rs. 100 lakhs at 10% from Corporation Bank and

(2) Rs. 110 lakhs at 11.50% from State Bank of India, to meet its capital expansion requirements.

Determine the amount of borrowing costs to be capitalized in each of the above Plants, as per AS-16.

(c) Suraj Limited wishes to obtain a machine costing Rs.30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Ashok Ltd., for a lease rental for Rs.3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Suraj Limited is not sure about the treatment of these lease rentals and seeks your advise.

20. (a)

Net profit for the year 2009	Rs. 18,00,000
Net profit for the year 2010	Rs. 60,00,000
No. of equity shares outstanding until 30th September 2010	20,00,000

Bonus issue 1st October 2010 was 2 equity shares for each equity share outstanding at 30th September, 2010.

Calculate Basic Earnings Per Share.

(b) U.K. International Ltd. is developing a new production process. During the financial year ending 31st March, 2009, the total expenditure incurred was Rs.50 lakhs. This process met the criteria for recognition as an intangible asset on 1st December, 2008. Expenditure incurred till this date was Rs.22 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2010 was Rs.80 lakhs. As at 31st March, 2010, the recoverable amount of know-how embodied in the process is estimated to be Rs.72 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to calculate:

(i) Amount to be charged to Profit and Loss A/c for the year ending 31st March, 2009 and carrying value of intangible as on that date.

(ii) Amount to be charged to Profit and Loss A/c and carrying value of intangible as on 31st March, 2010.

Ignore depreciation.

SUGGESTED ANSWERS/ HINTS

1. (i) Adjustment for raising and writing off of goodwill

	Raised in old profit sharing ratio		Total	Written off in new ratio	Difference
	X & Co.	Y & Co.			
	3:2	5:3			
	Rs.	Rs.	Rs.	Rs.	Rs.
A	45,000	---	45,000 Cr.	46,000 Dr.	1,000 Dr.
B	30,000	25,000	55,000 Cr.	57,500 Dr.	2,500 Dr.

C	---	15,000	15,000 Cr.	11,500 Dr.	3,500 Cr.
	75,000	40,000	1,15,000	1,15,000	Nil

(ii) Balance Sheet of X Y & Co.(New firm) as on 31.3.2010

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Accounts:		Vehicle	74,000
A	1,72,000	Machinery	1,00,000
B	2,15,000	Building	2,00,000
C	43,000	Stock	70,000
Current Accounts:		Debtors	1,31,000
A	22,000	Cash & Bank	70,000
C	18,000		
Creditors	1,75,000		
	6,45,000		6,45,000

Working Notes:

1. Balance of Capital Accounts at the time of amalgamation of firms

	A's Capital Rs.	*B's Capital Rs.*
X & Co. Profit and loss sharing ratio 3:2		
Balance as per Balance Sheet	1,50,000	1,00,000
Add: Reserves	30,000	20,000
Revaluation profit (Building)	30,000	20,000
Less: Revaluation loss (Machinery)	(12,000)	(8,000)
Provision for doubtful debt	(3,000)	(2,000)
	1,95,000	1,30,000
	B's Capital	*C's Capital*
Y & Co. Profit and loss sharing ratio 5:3	*Rs.*	*Rs.*
Balance as per Balance sheet	75,000	50,000
Add: Reserves	25,000	15,000
Less: Revaluation (vehicle)	(10,000)	(6,000)
Provision for doubtful debts	(2,500)	(1,500)
	87,500	57,500

2. Balance of Capital Accounts in the balance sheet of the new firm as on 31.3.2010

	A Rs.	B Rs.	C Rs.
Balance b/d: X & Co.	1,95,000	1,30,000	--
Y & Co.	--	87,500	57,500
	1,95,000	2,17,500	57,500
Adjustment for goodwill	(1,000)	(2,500)	3,500
	1,94,000	2,15,000	61,000
Total capital Rs. 4,30,000 (B's capital[*] i.e. Rs.2,15,000 x 2) to be contributed in 4:5:1 ratio.	1,72,000	2,15,000	43,000
Transfer to Current Account	22,000	--	18,000

2. Partners' Current Account

	Particulars	A	B	C		Particulars	A	B	C
1.1.2009		Rs.	Rs.	Rs.	1.1.2009		Rs.	Rs.	Rs.
To	Balance b/d	---	----	5,000	By	Balance b/d	29,000	20,000	--
To	A's Current A/c – goodwill	-	20,000	10,000	By	B's Current A/c – goodwill	20,000	--	--
To	A's Current A/c – Revaluation Profit	-	12,000	6,000	By	C's Current A/c – goodwill	10,000	-	-
To	A's Capital A/c – transfer	80,000	-	-	By	B's Current A/c – Revaluation profit	12,000	-	-
					By	C's Current A/c – Revaluation profit	6,000		
					By	Joint Life Policy A/c (Rs.26,000 – Rs.20,000)	3,000	2,000	1,000
					By	Balance c/d		10,000	20,000
		80,000	32,000	21,000			80,000	32,000	21,000
1.1.2009					31.12.2009				
To	Balance b/d		10,000	20,000	By	Profit & Loss Appropriation A/c		17,617	8,808
31.12.2009					By	Balance c/d		7,383	19,192
To	Drawings A/c		15,000	8,000					
			25,000	28,000				25,000	28,000

[*] B's Capital Rs.21,500 being one-half of the total capital of the firm.

1.1.2010					30.6.2010				
To	Balance b/d		7,383	19,192	By	Realisation A/c -profit		12,573	6,287
To	B's Capital A/c – transfer		5,190	---	By	C's Capital A/c - transfer		---	12,905
			12,573	19,192				12,573	19,192

Partners' Capital Accounts

	Particulars	A	B	C		Particulars	A	B	C
1.1.2009		Rs.	Rs.	Rs.	1.1.2009		Rs.	Rs.	Rs.
To	A's Executors A/c	1,40,000	----	---	By	Balance b/d	60,000	40,000	20,000
To	Balance c/d	---	40,000	20,000	By	A's Current A/c	80,000	--	--
		1,40,000	40,000	20,000			1,40,000	40,000	20,000
31.12.2009					1.1.2009				
To	Balance c/d		40,000	20,000	By	Balance b/d		40,000	20,000
			40,000	20,000				40,000	20,000
30.6.2010					1.1.2010				
To	C's Current A/c – transfer		---	12,905	By	Balance b/d		40,000	20,000
To	Bank A/c		45,190	7,095	30.6.2010				
					By	B's Current A/c – transfer		5,190	---
			45,190	20,000				45,190	20,000

A's Executors Account

Date		Particulars	Rs.	Date		Particulars	Rs.
1.1.2009	To	Bank A/c	20,000	1.1.2009	To	A's Capital A/c	1,40,000
1.1.2009	To	Balance c/d	1,20,000				
			1,40,000				1,40,000
30.6.2009	To	Bank A/c	20,000	1.1.2009	By	Balance b/d	1,20,000
30.6.2009	To	Balance c/d	1,03,000	30.6.2009	By	Interest A/c	3,000
			1,23,000				1,23,000
31.12.2009	To	Bank A/c	20,000	1.7.2009	By	Balance b/d	1,03,000
31.12.2009	To	Balance c/d	85,575	31.12.2009	By	Interest A/c	2,575
			1,05,575				1,05,575
30.6.2010	To	Bank A/c	87,715	1.1.2010	By	Balance b/d	85,575
				30.6.2010	By	Interest A/c	2,140
			87,715				87,715

Working Notes:

(1) Adjustment in regard to Goodwill

Partners		A	B	C
Share of goodwill before death	(Rs.)	30,000	20,000	10,000
Share of goodwill after death	(Rs.)		- 40,000	20,000
Gain (+)/Sacrifice (-)	(Rs.)	(30,000)	20,000	10,000
		Cr.	Dr.	Dr.

(2) Adjustment in regard to revaluation of assets

Partners		A	B	C
Share of profit on revaluation credited to all the partners	(Rs.)	18,000	12,000	6,000
Debited to the continuing partners	(Rs.)		- 24,000	12,000
	(Rs.)	(18,000)	12,000	6,000
		Cr.	Dr.	Dr.

(3) Ascertainment of Profit for the year ended 31.12.2009

	Rs.	*Rs.*
Profit before charging interest on balance due to A's executors		32,000
Less: Interest payable to A's executors:		
from 1.1.2009 to 30.6.2009	3,000	
From 1.7.2009 to 31.12.2009	2,575	5,575
Balance of profit to be shared by B and C		26,425

(4) Ascertainment of Profit for the year ended 31.12.12009

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Account – B	40,000	Sundry Assets (balancing figure)	1,19,000
Capital Account – C	20,000	Partners' Current A/cs –B	7,383
A's Executors A/c	85,575	Partners' Current A/cs- C	19,192
	1,45,575		1,45,575

(5) **Realisation Account**

		Rs.			*Rs.*
To	Sundry Assets A/c	1,19,000	By	Bank A/c (purchase consideration)	1,40,000
To	Interest A/c – A's Executors	2,140			
To	Partners' Capital	12,573			

	A/cs – B				
To	Partners' Capital A/cs – C	6,287			
		1,40,000			1,40,000

3. **Realisation Account**

	Particulars		*Rs.*		*Particulars*		*Rs.*
To	Debtors		48,000	By	Creditors		48,000
To	Stock		60,000	By	Cash (Assets realized)		
To	Fixtures		24,000		Plant and Machinery	1,02,000	
To	Plant and machinery		1,08,000		Fixtures	18,000	
To	Cash (Creditors) A/c		45,600		Stock	84,000	
To	Cash A/c (Bills for sales tax)		4,200		Sundry Debtors	44,400	2,48,400
To	Cash A/c (Realisation expenses)		1,500	By	Q (Unrecorded assets)		4,800
To	Profit on Realisation						
	P	3,960					
	Q	3,960					
	R	1,980	9,900				
			3,01,200				3,01,200

Partners' Capital Accounts

	Particulars	*P*	*Q*	*R*		*Particulars*	*P*	*Q*	*R*
		Rs.	*Rs.*	*Rs.*			*Rs.*	*Rs.*	*Rs.*
To	Realisation (unrecorded assets)		4,800		By	Balance b/d	1,20,000	48,000	24,000
To	Cash (Bal. Fig.)	1,47,960	71,160	37,980	By	Reserve fund	24,000	24,000	12,000
					By	Realisation (Profit)	3,960	3,960	1,980
		1,47,960	75,960	37,980			1,47,960	75,960	37,980

Cash Account

	Particulars	*Rs.*		*Particulars*	*Rs.*
To	Balance b/d	60,000	By	Realisation A/c (Creditors)	45,600
To	Realisation A/c (Assets)	2,48,400	By	Realisation A/c (Expenses)	1,500

	By	Realisation (Sales Tax)	4,200
	By	P's Capital A/c	1,47,960
	By	Q's Capital A/c	71,160
	By	R's Capital A/c	37,980
3,08,400			3,08,400

Working Note:

An unrecorded asset is in the nature of gain hence realization account is credited. Since these assets have been taken over by Q, his account has been debited.

4. **Books of S Ltd.**

Journal Entries

Date	*Particulars*		*Debit Rs.*	*Credit Rs.*
31.3.08	Employees Compensation Expense Account	Dr.	12,000	
	To Employees Stock Option Outstanding Account			12,000
	(Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs.30 each, amortized on straight line basis over 2½ years)			
	Profit and Loss Account	Dr.	12,000	
	To Employees Compensation Expense Account			12,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.3.09	Employees Compensation Expense Account	Dr.	12,000	
	To Employees Stock Option Outstanding Account			12,000
	(Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs.30 each, amortized on straight line basis over 2½ years)			
	Profit and Loss Account	Dr.	12,000	
	To Employees Compensation Expense Account			12,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.3.10	Employees Compensation Expense Account	Dr.	6,000	
	To Employees Stock Option Outstanding Account			6,000
	(Being balance of compensation expense amortized Rs.30,000 less Rs. 24,000)			

	Profit and Loss Account	Dr.	6,000	
	To Employees Compensation Expense Account			6,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.7.10	Bank Account (Rs. 60 × 1,000)	Dr.	60,000	
	Employees Stock Option Outstanding Account (Rs.30×1,000)	Dr.	30,000	
	To Equity Share Capital Account			10,000
	To Securities Premium Account			80,000
	(Being exercise of 1,000 options at an exercise price of Rs.60 each and an accounting value of Rs.30 each)			

Working Notes:

1. Total employees compensation expense = 1,000 x (Rs.90 – Rs.60) = Rs.30,000
2. Employees compensation expense has been written off during 2½ years on straight line basis as under:

   I year = Rs.12,000 (for full year)

   II year = Rs.12,000 (for full year)

   III year = Rs.6,000 (for half year)

5. **In the books of Dee Limited**

Journal Entries

	Particulars		*Dr.*	*Cr.*
			(Rs. in '000)	
(i)	Bank Account	Dr.	22,00	
	Profit and Loss Account	Dr.	8,00	
	To Investment Account			30,00
	(Being the investments sold at loss for the purpose of buy back)			
(ii)	Equity Share Capital Account	Dr.	5,00	
	Premium payable on buy back Account	Dr.	20,00	
	To Equity shares buy back Account			25,00
	(Being the amount due on buy back)			
(iii)	Securities Premium Account	Dr.	20,00	
	To Premium payable on buy back Account			20,00
	(Being the premium payable on buy back adjusted against securities premium account)			

(iv)	Revenue Reserve Account[*]	Dr.	3,00	
	To Capital Redemption Reserve Account			3,00
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)			
(v)	Equity shares buy-back Account	Dr.	25,00	
	To Bank Account			25,00
	(Being the payment made on buy back)			

Balance Sheet of Dee Limited as on 1st April, 2010

(After buy back of shares)

Liabilities	*Rs.'000*	*Rs.'000*
Share capital		
Authorised capital:		30,00
Issued and subscribed capital:		
2,00,000 Equity shares of Rs.10 each fully paid up	20,00	
2,000 10% Preference shares of Rs.100 each fully paid up	2,00	22,00
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
Current liabilities and provisions		14,00
		10,500
Fixed Assets		93,00
Current assets loans and advances (including cash and bank balance) (15,00+22,00- 25,00)		12,00
		10,500

6. **Statement Showing Liability of underwriters on the basis that 'the benefit of firm underwriting is not given to individual underwriters.'**

No. of shares

	A	B	C	Total
Gross Liability	60,000	30,000	10,000	1,00,000
Less: Marked Applications	20,000	14,000	6,000	40,000

[*] Alternatively, 'Securities Premium' account may also be used for transfer to 'Capital Redemption Reserve Account.'

	40,000	16,000	4,000	60,000
Less: Unmarked applications[*] (Including firm underwriting in Gross Liability Ratio)	24,000	12,000	4,000	40,000
Net Liability	16,000	4,000	-	20,000
Add: Firm underwriting	8,000	10,000	2,000	20,000
Total liability of underwriters	24,000	14,000	2,000	40,000

Alternatively,

Statement showing liability of underwriters on the basis that 'the benefit of firm underwriting is given to individual underwriters.'

				No. of shares
	A	B	C	Total
Gross Liability	60,000	30,000	10,000	1,00,000
Less: Firm underwriting	8,000	10,000	2,000	20,000
	52,000	20,000	8,000	80,000
Less: Marked Applications	20,000	14,000	6,000	40,000
	32,000	6,000	2,000	40,000
Less: Unmarked applications (total application less firm underwriting less marked applications) in Gross Liability Ratio(i.e. 80,000 – 20,000 –40,000)	12,000	6,000	2,000	20,000
Net Liability	20,000	-	-	20,000
Add: Firm underwriting	8,000	10,000	2,000	20,000
Total liability of underwriters	28,000	10,000	2,000	40,000

7. Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500

[*] Total applications – Marked applications = Unmarked applications
80,000 – (20,000 + 14,000 + 6,000) = 40,000 applications.

Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	Rs.3,67,500
Equity shares of Rs.10 each issued on conversion [Rs.3,67,500/ Rs.15]	24,500 shares

8. (i) Statement showing calculation of purchase consideration

		(Number of shares)
	A Ltd.	*B. Ltd.*
Existing shares	1,00,000	60,000
Less: Shares held by A Ltd.		5,000
	1,00,000	55,000
Value per share	Rs.18	Rs.20
Total value	Rs.18,00,000	Rs.11,00,000
No. of shares to be issued at a premium of Rs.6 per share i.e. Rs.16 (10+6)	1,12,500 shares	68,750 shares
	Rs.	*Rs.*
Share capital	11,25,000	6,87,500
Add: Securities premium	6,75,000	4,12,500
Total purchase consideration	18,00,000	11,00,000

(ii) Journal Entries in the books of A Ltd.

		Rs.	*Rs.*
Realisation A/c	Dr.	24,40,000	
To Land & building A/c			9,00,000
To Plant & machinery A/c			5,00,000
To Stock A/c			5,20,000
To Sundry debtors A/c			4,10,000
To Investments A/c			80,000
To Bank A/c			30,000
(Being assets transferred to Realisation A/c)			
Profit and loss A/c	Dr.	60,000	
To Creditors A/c			60,000
(Being contingent liability treated as real liability)			
10% Debentures A/c	Dr.	5,00,000	
Creditors A/c	Dr.	3,20,000	
To Realisation A/c			8,20,000
(Being transfer of liabilities to Realisation A/c)			

AB Ltd.	Dr.	18,00,000	
To Realisation A/c			18,00,000
(Being the purchase consideration accounted for)			
Share in AB Ltd. A/c	Dr.	18,00,000	
To AB Ltd.			18,00,000
(Being purchase consideration received)			
Share Capital A/c	Dr.	10,00,000	
Securities premium A/c	Dr.	2,00,000	
General Reserve A/c	Dr.	3,00,000	
Profit and Loss A/c	Dr.	1,20,000	
Realisation A/c	Dr.	1,80,000	
To Shareholders A/c			18,00,000
(Being transfer of balances to shareholders' account)			
Shareholders A/c	Dr.	18,00,000	
To Shares in AB Ltd.			18,00,000
(Being closure of shareholders a/c)			

(iii) Journal Entries in the Books of AB Ltd.

		Rs.	*Rs.*
Land & building A/c	Dr.	9,00,000	
Plant & machinery A/c	Dr.	5,00,000	
Stock A/c	Dr.	5,20,000	
Debtors A/c	Dr.	4,10,000	
Bank A/c	Dr.	30,000	
Goodwill A/c	Dr.	2,60,000	
To 10% Debentures A/c			5,00,000
To Sundry creditors A/c			3,20,000
To Liquidator of A Ltd. A/c			18,00,000
(Being the purchase consideration of A Ltd. accounted for)			
Land & building A/c	Dr.	4,50,000	
Plant & machinery A/c	Dr.	3,80,000	
Stock A/c	Dr.	3,50,000	

Debtors A/c	Dr.	2,60,000	
Bank A/c	Dr.	40,000	
Goodwill A/c	Dr.	90,000	
To Secured loan A/c			3,00,000
To Sundry creditors A/c			1,70,000
To Liquidator of B Ltd. A/c			11,00,000
(Being purchase consideration of B Ltd. accounted for)			
Liquidator of A Ltd. A/c	Dr.	18,00,000	
To Equity share capital A/c			11,25,000
To Securities premium A/c			6,75,000
(Being shares issued to Liquidator of A Ltd.)			
Liquidator of B Ltd. A/c	Dr.	11,00,000	
To Equity share capital A/c			6,87,500
To Securities premium A/c			4,12,500
(Being shares issued to Liquidator of B Ltd.)			

(iv) Balance Sheet of AB Ltd.

(After amalgamation of A Ltd. & B Ltd.)

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Goodwill (2,60,000 + 90,000)	3,50,000
1,81,250 Equity shares of Rs.10 each fully paid up	18,12,500	Land & building	13,50,000
(above shares have been issued for consideration other than cash)		Plant & machinery	8,80,000
		Stock	8,70,000
Securities premium	10,87,500	Sundry debtors	6,70,000
10% Debentures	5,00,000	Cash at bank	70,000
Secured loan	3,00,000		
Sundry creditors	4,90,000		
	41,90,000		41,90,000

9. (i) Journal of Paradise Ltd.

		Dr. *Rs.*	*Cr.* *Rs.*
6% Cumulative Preference Share Capital (Rs. 100 each) A/c	Dr.	1,50,000	

To 6% Cumulative Pref. Share Capital			
(Rs. 75 each) A/c			1,12,500
To Capital Reduction A/c			37,500
(1,500 6% Preference Shares converted into equal number of 6% Cum. Pref. Shares of Rs. 75 each; balance of the amount transferred to Capital Reduction Account vide Scheme of Reconstruction confirmed by the Court Order dated …….)			
Equity Share Capital (Rs. 100 each) A/c	Dr.	2,00,000	
To Equity Share Capital (Rs. 12.50 each) A/c			25,000
To Capital Reduction A/c			1,75,000
(2,000 Equity Shares of Rs. 100 each reduced to equity Share of Rs. 12.50 each; the balance transferred to Capital Reduction Account vide Reconstruction Scheme confirmed by the Court Order dated……)			
Capital Reduction A/c	Dr.	3,375	
To Equity Share Capital A/c			3,375
(Allotment of 270 Equity Shares of Rs. 12.50 each to preference shareholders in settlement of their claim for arrears of dividend @ 1/8 of amount due, Rs. 27,000, vide Scheme of Reconstruction confirmed by the Court Order dated……..)			
Capital Reserve A/c	Dr.	36,000	
To Capital Reduction A/c			36,000
(Balance of capital reserve transferred to Capital Reduction Account vide Scheme of Capital Reconstruction dated…….)			
Capital Reduction A/c	Dr.	77,500	
To Plant & Machinery A/c			77,500
(The net amount of Plant & Machinery reduced to Rs. 75,000 vide Scheme of reconstruction confirmed by the Court Order dated …….)			
Capital Reduction A/c	Dr.	1,67,625	
To Profit & Loss A/c			1,10,375
To Preliminary Expenses			7,250
To Goodwill			50,000

(Debit balance of profit and loss account, preliminary expenses and goodwill written off against Capital Reduction Account vide Scheme of Capital Reconstruction confirmed by Court Order dated …….)			
Bank A/c	Dr.	62,500	
To Share Application & Allotment A/c			62,500
(Application & allotment money received on 5,000 Equity Share @ Rs. 12.50 per share)			
Share Application and Allotment A/c	Dr.	62,500	
To Equity Share Capital A/c			62,500
(Allotment of 5,000 equity share of Rs. 12.50 each vide Board Resolution dated……..)			

(ii) Balance Sheet of Paradise Ltd. as on March 31, 2010

Liabilities	*Rs.*	*Assets*		*Rs.*
Share Capital		*Fixed Assets*		
Authorised Capital:		Goodwill	50,000	
19,000 Equity Shares of		*Less:* Written off	50,000	
Rs. 12.50 each	2,37,500	Plant & Machinery		
1,500 6% Cum. Preference shares of Rs. 75 each	1,12,500	as cost	2,10,000	-
Issued, subscribed &		*Less:* Written off	77,500	
paid-up capital:			1,32,500	
7,270 Equity Shares of		*Less:* Provision for Depreciation	57,500	75,000
Rs. 12.50 each fully paid (270 Shares of Rs. 12.50 each issued for consideration other than cash)	90,875	Lease-hold Property	80,000	
1,500 6% Cum. Preference Share of Rs. 75 each fully paid	1,12,500	*Less:* Provision for Depreciation	30,000	50,000
Capital Reserve	Nil	*Current Assets, loans & advances*		
Secured Loans	Nil	Investments		Nil
Unsecured Loans,	-	Stock in trade		79,175
Current Liabilities & Provisions		Sundry Debtors		30,200
Sundry Creditors	42,500	Cash at Bank		11,500
	2,45,875			2,45,875

10. **Liquidator's Statement of Account**

Receipts	*Rs.*	*Payments*	*Rs.*	*Rs.*
Assets Realised:		Liquidator's		
Land & Building	9,84,000	Remuneration		91,500
Stock-in-Trade	1,63,000	(30,50,000 x 3/100)		
Plant and machinery	7,12,000	Liquidator's Expenses		54,000
Book Debts	11,91,000	Debentures[*]	4,00,000	
Calls on 5,000 shares		Debenture Interest	60,000	4,60,000
of Rs. 50 paid up		Preferential		
@ Rs.4 per share	20,000	Creditors (1,05,000 + 44,500)		1,49,500
(Refer W.N.)		Bank Overdraft		3,03,000
		Trade Creditors		7,42,000
		Preference Shareholders:		
		Capital	10,00,000	
		Add: Arrears		
		of dividend		
		(for 2 years)	2,40,000	12,40,000
		Equity Shareholders:		
		Refund on 5,000 shares of		
		Rs. 60 paid up @ Rs. 6 per		
		share (Refer W.N.)		30,000
	30,70,000			30,70,000

Working Note:

	Rs.
Total equity capital paid up	5,50,000
Less: Balance available after payment to unsecured and preference creditors	10,000
Loss to be borne by 10,000 equity shareholders	5,40,000
Loss per share	Rs.54
Hence, amount of call on Rs.50 per share paid up (Rs.54 – Rs.50)	Rs.4 per share
Amount of refund on Rs.60 per share paid up (Rs.60 – Rs.54)	Rs.6 per share

[*] It is assumed that Debentures are fully secured.

11. (a) (i) Calculation of Rebate on bills discounted

S.No.	*Amount (Rs.)*	*Due date 2009*	*Unexpired portion*	*Rate of discount*	*Rebate on bill discounted Rs.*
(i)	3,75,000	April 8	8 days	12%	986
(ii)	1,50,000	May 5	35 days	14%	2,014
(iii)	2,20,000	June 12	73 days	14%	6,160
(iv)	4,80,000	July 15	106 days	15%	20,910
					30,070

(ii) Amount of discount to be credited to the Profit and Loss Account

	Rs.
Transfer from Rebate on bills discount as on 31st March, 2008	45,800
Add: Discount received during the year ended 31st March, 2009	2,02,500
	2,48,300
Less: Rebate on bills discounted as on 31st March, 2009	30,070
Discount credited to the Profit and Loss Account	2,18,230

(iii) Journal Entries

			Dr. Rs.	Cr. Rs.
(1)	Rebate on bills discounted A/c	Dr.	45,800	
	To Discount on bills A/c			45,800
	(Being the transfer of rebate on bills discounted on 31st March, 2008 to Discount on bills A/c)			
(2)	Discount on bills A/c	Dr.	30,070	
	To Rebate on bill discounted A/c			30,070
	(Being the transfer of rebate on bills discounted required on 31st March, 2009 from Discount on bills A/c)			
(3)	Discount on bills A/c	Dr.	2,18,230	
	To Profit and Loss A/c			2,18,230
	(Being the amount of discount on bills transferred to profit and loss account)			

(b) Interest on performing assets to be recognized on accrual basis, but interest on non-performing asset should be recognized on cash basis.

In the books of Yash Bank Ltd.

		Rs. in lakhs
Interest on Term Loan	(240 + 10)	250
Cash Credits and Overdrafts	(1500 + 24)	1,524
Bills Purchases and Discounted	(300 + 40)	340
Total Interest to be recognized		2,114

12. **FORM B– RA**

Name of the Insurer: Beta Insurance Company Limited

Registration No. and Date of registration with IRDA: ……………………..

Revenue Account for the year ended 31st March, 2009

Particulars	*Schedule*	*Amount (Rs.)*
Premium earned (net)	1	10,85,000
Profit or loss on sale/redemption of investment		11,000
Others		
Interest, dividend & rent (Gross)		64,250
Total (A)		11,60,250
Claim incurred (Net)	2	6,95,000
Commission	3	1,52,000
Operating expenses related to insurance	4	2,50,000
Total (B)		10,97,000
Operating profit/loss from insurance business		63,250

Schedule –1 (Premium earned net) Rs.

Premium received	11,20,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	35,000
Total premium earned	10,85,000

Schedule -2 (Claims incurred net)

Claim paid	6,40,000
Add: Legal expenses regarding claims	30,000

	6,70,000
Add: Claims outstanding as on 31st March, 2009	90,000
	7,60,000
Less: Claims outstanding as on 31st March, 2008	65,000
	6,95,000

Schedule-3 (Commission)

Commission paid	1,52,000

Schedule-4 (Operating expenses related to Insurance Business)

Expenses of management (2,80,000 – 30,000)	2,50,000

Working Note:

Calculation for change in Reserve for Unexpired risk:

		Rs.
As on 31st March, 2009:		
Reserve for Unexpired Risk	5,60,000	
Additional Reserve	75,000	6,35,000
Less: Reserve for Unexpired risks as on 31st March, 2008	5,00,000	
Additional reserve as on 31st March, 2008	1,00,000	6,00,000
		35,000

Note: Interest and dividends are shown at gross value in Revenue A/c. Income tax on the above will not be included in revenue A/c of an insurance company as it is the part of Profit and Loss A/c.

13. (i) Capital Base

		(Rs. in lakhs)
Original cost of Fixed Assets	200	
Less: Customer's Contribution	(1)	199
Cost of Intangible Assets		6
Average of Current Assets	22	
Less: Debtors	(2)	20
Contingencies Reserve Investments		10
		235
Less: Depreciation Reserve	50	
Intangible assets written off	1	
Loans from Electricity Board	30	
Loans from Approved Institutions	10	

8% Debentures	20	
Development Reserve	10	
Security Deposits	55	
Tariff and Dividend Control Reserve	4	
Licensee's A/c	1	(181)
Capital Base		54

(ii) Reasonable Return

	(Rs. in lakhs)
7%* of Capital Base (54 x 7%)	3.78
½% on Loans from Electricity Board (30 x 0.50%)	0.15
½ % on Loans from Approved Institutions (10 x 0.50%)	0.05
½% on Debentures (20 x 0.50%)	0.10
½% on Development Reserve (10 x 0.50%)	0.05
Income from Reserve Fund Investments (50 x 4.50%)	2.25
Reasonable Return	6.38

(iii) Surplus

	(Rs. in lakhs)
Clear Profit (before Debenture Interest)	8.88
Less: Debenture Interest @ 8%	(1.60)
Clear Profit after Debenture Interest	7.28
Less: Reasonable Return	(6.38)
Surplus for disposal (limited upto 20% of reasonable return i.e. 6.38 x 20% = 1.273. As surplus of Rs.0.90 lakhs is less than Rs.1.273 lakhs. Therefore only Rs.0.90 lakhs will be available for disposal)	0.90

(iv) Statement showing disposal of Surplus

		(Rs. in lakhs)
1/3 of Surplus not exceeding 5% of Reasonable Return is at the disposal of an undertaking		
i.e. 1/3 of 0.90	0.30	
5% of Reasonable Return	0.319	0.30
½ of the balance viz. [0.90 - 0.30] transferred to Tariff & Dividend Control Reserve Account		0.30

*Reserve Bank Rate i.e. 5% +2% = 7%.

½ of the balance viz [0.90 - 0.30] transferred to Consumer Rebate & Reserve Account	0.30
Total Surplus	0.90

(v) Statement showing Disposal of Profit

	(Rs. in lakhs)
Tariff & Dividend Control Reserve	0.30
Consumer Rebate & Reserve	0.30
At the disposal of the undertaking [6.38 + 0.30 (See note (iv)]	6.68
	7.28

14. Departmental Trading Account for the year ended on 31st March, 2010

	Particulars	A	B	C		Particulars	A	B	C
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
To	Opening Stock	11,520	8,640	12,240	By	Sales	2,44,800	5,18,400	7,48,800
To	Purchases	96,000	2,16,000	2,88,000	By	Closing Stock	9,600	17,280	720
To	Gross Profit	1,46,880	3,11,040	4,49,280					
		2,54,400	5,35,680	7,49,520			2,54,400	5,35,680	7,49,520

Working Notes:

(1) **Profit Margin Ratio**

		Rs.
Selling price of unit purchased:		
Department A	(6,000 x 40)	2,40,000
Department B	(12,000 x 45)	5,40,000
Department C	(14,400 x 50)	7,20,000
Total Selling Price		15,00,000
Less: Purchase (Cost) Value		6,00,000
Gross Profit		9,00,000

Profit Margin Ratio = $\frac{9,00,000}{15,00,000} \times 100 = 60\%$

(2) **Statement showing department-wise per unit Cost and Purchase Cost**

	A	B	C
Selling Price (Per unit) (Rs.)	40	45	50
Less: Profit Margin @ 60% (Rs.)	24	27	30
Purchase price per unit (Rs.)	16	18	20

Number of units purchased	6,000	12,000	14,400
(Purchase cost per unit x Units purchased)	96,000	2,16,000	2,88,000

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

	A	B	C
Sales (Units)	6,120	11,520	14,976
Add: Closing Stock (Units)	600	960	36
	6,720	12,480	15,012
Less: Purchases (units)	6,000	12,000	14,400
Opening Stock (Units)	720	480	612

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

		A	B	C
Cost of Opening Stock (Rs.)		(720 x 16)	(480 x 18)	(612 x 20)
	Rs.	11,520	8,640	12,240
Cost of Closing Stock		(600 x 16)	(960 x 18)	(36 x 20)
	Rs.	9,600	17,280	720

15. **Trading and Profit and Loss Account**

for the year ended on 31st March 2010

Particulars	H.O. (Rs.)	Branch (Rs.)	Total (Rs.)	Particulars	H.O. (Rs.)	Branch (Rs.)	Total (Rs.)
To Purchases less returns	14,02,350	1,87,500	15,89,850	By Sales	10,80,000	7,20,000	18,00,000
To Goods from H.O. less in transit	-	4,78,500	-	By Goods sent to Branch	4,78,500	-	-
To Gross Profit c/d (W.N.4)	4,03,500	1,80,000	5,83,500	By Goods lost in transit	-	8,010	8,010
				By Closing Stock (W.N.1&2)	2,47,350	1,17,990	3,65,340
	18,05,850	8,46,000	21,73,350		18,05,850	8,46,000	21,73,350
To Expenses	2,80,260	80,475	3,60,735	By Gross profit b/d	4,03,500	1,80,000	5,83,500

To Discount Allowed	9,180	5,640	14,820	By Discount allowed	30,090	4,875	34,965
To Goods lost in transit	-	8,010	8,010				
To Stock Reserve (W.N.3)	10,500	-	10,500				
To Net Profit	1,33,650	90,750	2,24,400				
	4,33,590	1,84,875	6,18,465		4,33,590	1,84,875	6,18,465

Working Notes:

1.	Closing stock at head office		
	Purchases less returns		14,02,350
	Less:(a) Cost of Sales (Rs. 10,80,000 x 2/3)	7,20,000	
	(b) Cost of goods sent to Branch		
	(Rs. 4,78,500 x 100/110)	4,35,000	11,55,000
	Closing Stock		2,47,350[*]
2.	Closing stock at Branch		
	Branch local purchases		1,87,500
	Add: Goods received from head office		4,78,500
			6,66,000
	Less:(a) Cost of Branch Sales (Rs. 7,20,000 x 3/4)	5,40,000	
	(b) Goods lost-in-transit	8,010[**]	5,48,010
	Closing Stock		1,17,990
3.	Stock Reserve at Branch [Rs.1,15,500x10/110]		10,500
4.	Gross profit of Head Office (10,80,000 x 33.333%)		3,60,000
	Add: Loading on goods sent to branch [4,78,500x10/110]		43,500
			4,03,500

16. (a) Sale of immovable property was concluded before approval by the Board. This is clearly an event occurring after the balance sheet date but agreement to sell was

[*] Goods in transit have been included in H.O. Stock.

[**] It is presumed that goods lost in transit includes those which were sent by the branch to customers.

entered into before the balance sheet date registration of the sale deed simply provides additional information relating to the conditions existing at the balance sheet date. So adjustments to assets for sale of property are necessary as per para 13 of AS-4 (Revised) "Contingencies and Events Occurring after the Balance Sheet Date.

(b) As per provisions of AS 5 "Net Profit or Loss for the period, prior period items and changes in accounting policies", prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

In the given example, it is clearly a case of error in preparation of financial statement for financial year 2006-07. Hence, claim received in financial year 2009-10 is a prior period item and should be separately disclosed in the statement of Profit and Loss.

(c) As per Para 11 of AS 12 "Accounting for Government Grants", government grant that becomes refundable should be treated as an extraordinary item. 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. The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset. Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfillment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve.

17. (a) According to AS 16,

Meaning of borrowing costs: are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

What it Includes- Borrowing costs may include: (i) interest and commitment charges on bank borrowings and other short-term and long-term borrowings; (ii) amortization of discounts or premiums relating to borrowings; (iii) amortization of ancillary costs incurred in connection with the arrangement of borrowings; (iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements; and (v) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Treatment as per AS 16

- **When to capitalize**- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset• should be capitalized as part of the cost of that asset.

  The capitalization of borrowing costs as part of the cost of a qualifying asset should commence when the conditions as mentioned below as specified in AS 16 are satisfied.
- Expenditure for the acquisition, construction or production of a qualifying asset is being incurred
- Borrowing costs are being incurred
- Activities that are necessary to prepare the asset for its intended use or sale are in progress
- **When to expense off**- Other borrowing costs should be recognized as an expense in the period in which they are incurred.

(b) For the purpose of accounting AS 19 'Leases' classify the lease into two categories as follows:

(i) Finance Lease

(ii) Operating Lease

Finance Lease: It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership. As per para 8 of the standard, in following situations, the lease transactions are called Finance lease:

- The lessee will get the ownership of leased asset at the end of the lease term.
- The lessee has an option to buy the leased asset at the end of the lease term at price, which is lower than its expected fair value at the date on which option will be exercised.
- The lease term covers the major part of the life of asset even if title is not transferred.
- At the beginning of lease term, present value of minimum lease rental covers the initial fair value.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

Operating Lease: It is lease, which does not transfer all the risks and rewards incidental to ownership.

• A qualifying asset is an asset that necessarily takes a substantial period of time[1] to get ready for its intended use or sale.

(c) As per Para 63 of AS 26 "Intangible Assets", the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.

XYZ Ltd. has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified under AS 26. Accordingly, XYZ Ltd. would be required to restate the carrying amount of intangible asset as on 1.4.2010 at Rs.96 lakhs less Rs. 28.8 lakhs (Rs. 9.6 lakhs × 3 years) = Rs. 67.2 lakhs. If amortisation had been as per AS 26, the carrying amount would have been Rs.67.2 lakhs. The difference of Rs. 4.8 lakhs i.e. (Rs. 72lakhs – 67.2 lakhs) would be required to be adjusted against the opening balance of revenue reserves. The carrying amount of Rs.67.2 lakhs would be amortized over 7 (10 less 3) years in future.

18. (a) As per Para 8.2 and 13 of Accounting Standard 4 'Contingencies and Events occurring after the Balance Sheet Date, assets and liabilities should be adjusted for events occurring after the date of balance sheet, that provide additional evidence to assist estimation of amounts relating to conditions existing at the Balance Sheet Date. Therefore, in the given case, full provision for bad debt amounting Rs.2 lakhs should be made to cover the loss arising due to insolvency in the final accounts for the year ended 31st March, 2010 as earthquake took place before the balance sheet date.

(b) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', as a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

Estimates may have to be revised, if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments.

As per the standard, the effect of a change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate. Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. Thus revision of an estimate by its nature, i.e. the difference of Rs. 2 lakhs is not a prior period item.

Therefore, in the given case expenses amounting Rs.2,00,000 (i.e. Rs.9,00,000 – Rs.7,00,000) relating to the previous year recorded in the current year, should not be regarded as prior period item.

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

19. (a) 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.

The amount refundable in respect of a government grant related to revenue is applied first against any unamortised 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 2009-10

(b) (1) Computation of actual borrowing costs incurred during the year

Sources	*Loan amount (Rs. in lakhs)*	*Interest rate*	*Interest amount (Rs. in lakhs)*
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	110.00	11.5%	12.65
Total	400.00		40.40
Specific Borrowings included in above	190.00		17.75

(2) Weighted Average Capitalization Rate for General Borrowings =

$$\frac{\text{Total Interest – Interest on Specific borrowings}}{\text{Total Borrowings – Specific borrowings}}$$

$$= = \frac{(40.40 - 17.75)}{(400 - 190)} = 22.65 / 210 = 10.79\% \text{ (approx.)}$$

(3) Capitalization of Borrowing Costs under AS 16 will be as under:

Plant	Borrowing	Loan Amount	Interest Rate	Interest Amount	Cost of Asset	
P	General	100	10.79%	10.79		110.79
Q	Specific	65	10.00%	6.50	71.50	
	General	60	10.79	6.47	66.47	137.97
R	Specific	125	9.00%	11.25	136.25	
	General	50	10.79	5.39	55.39	191.64
	Total	400		40.40		440.40

Note: The amount of borrowing costs capitalized should not exceed the actual interest cost.

(c) As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment[•] amounts to at least substantially all of the fair value of leased asset. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

Annuity Factor (Year 1 to Year 5 Flows Rs.3 lakhs each year)	Rs.3.36 lakhs (approx.)
Present Value of minimum lease payments	Rs.10.08 lakhs (approx.)

Thus present value of minimum lease payments is Rs.10.08 lakhs and the fair value of the machine is Rs.30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for five years. Therefore lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the

• In calculating the present value of the of minimum lease payments, the discount rate is the interest rate implicit in the lease.

statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

20. (a) No. of Bonus Issue 20,00,000 x 2 = 40,00,000 shares

Earnings per share for the year 2010 $\frac{\text{Rs. } 60,00,000}{(20,00,000+40,00,000)}$ = Re. 1.00

Adjusted earnings per share for the year 2009 $\frac{\text{Rs. } 18,00,000}{(20,00,000+40,00,000)}$ = Re. 0.30

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

(b) As per AS 26 'Intangible Assets'

(i) For the year ending 31.03.2009

(1) Carrying value of intangible as on 31.03.2009:

At the end of financial year 31st March 2009, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of Rs. 28 lakhs (expenditure incurred since the date the recognition criteria were met, i.e., on 1st December 2008).

(2) Expenditure to be charged to Profit and Loss account:

The Rs. 22 lakhs is recognized as an expense because the recognition criteria were not met until 1st December 2009. This expenditure will not form part of the cost of the production process recognized in the balance sheet.

(ii) For the year ending 31.03.2010

(1) Expenditure to be charged to Profit and Loss account:

	(Rs. in lakhs)
Carrying Amount as on 31.03.2009	28
Expenditure during 2009 – 2010	80
Total book cost	108
Recoverable Amount	72
Impairment loss	36

Rs. 36 lakhs to be charged to Profit and loss account for the year ending 31.03.2010.

(2) Carrying value of intangible as on 31.03.2010:

	(Rs. in lakhs)
Total Book Cost	108
Less: Impairment loss	36
Carrying amount as on 31.03.2010	72

NOTE : Accounting Standards 4, 5, 11, 12, 16, 19, 20 26, 29 are covered in the syllabus. The study material revised in January, 2010 is relevant for May, 2011 examination.