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PAPER – 5 : ADVANCED ACCOUNTING

Question No. 1 is compulsory

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary, suitable assumption(s) may be made by the candidates.

Working Notes should form part of the answer.

Question 1

Answer the following questions:

(a) *State with reasons, how the following events would be dealt with in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013:*

(i) *An agreement to sell a land for ₹ 30 lakh to another company was entered into on 1st March, 2013. The value of land is shown at ₹ 20 lakh in the Balance Sheet as on 31st March, 2012. However, the Sale Deed was registered on15th April, 2013.*

(ii) *The negotiation with another company for acquisition of its business was started on 2nd February, 2013. Pradeep Ltd. invested ₹ 40 lakh on 12th April, 2013.*

(b) *Cost of a machine acquired on 01.04.2009 was ₹ 5,00,000. The machine is expected to realize ₹ 50,000 at the end of its working life of 10 years. Straight-line depreciation of ₹ 45,000 per year has been charged upto 2011-2012. For and from 2012-13, the company switched over to 15% p.a. reducing balance method of depreciation in respect of the machine. The new rate of depreciation is based on revised useful life of 15 years. The new rate shall apply with retrospective effect from 01.04.2009. State how would you deal with the above in the annual accounts of the Company for the year ended 31st March, 2013 in the light of AS 5.*

(c) *Beekay Ltd. purchased fixed assets costing ₹ 5,000 lakh on 01.04.2012 payable in foreign currency (US$) on 05.04.2013. Exchange rate of 1 US$ = ₹ 50.00 and ₹ 54.98 as on 01.04.2012 and 31.03.2013 respectively.*

The company also obtained a soft loan of US$ 1 lakh on 01.04.2012 payable in three annual equal instalments. First instalment was due on 01.05.2013.

You are required to state, how these transactions would be accounted for in the books of accounts ending 31st March, 2013.

(d) (i) *Vasudha Ltd. provides following information:*

Raw Material stock holding period	:	*3.5 months*
Work-in-progress holding period	:	*1 month*
Finished goods holding period	:	*4.5 months*
Debtors collection period	:	*6 months*

You are required to compute the operating cycle of Vasudha Ltd. What would happen if the trade payables of the company are paid in 14 months-whether these should be classified as current or non-current liability?

(ii) The management of Kshitij Ltd. contends that the work in progress is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in progress would be more or less the same. Accordingly, the management had not separately disclosed the work in progress in its financial statements. Comment in line with Revised Schedule VI.

(4 x 5 = 20 Marks)

Answer

(a) (i) According to AS 4 "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 the estimation of amounts relating to conditions existing at the balance sheet date.

In the given case, sale of immovable property was carried out before the closure of the books of accounts. This is clearly an event occurring after the balance sheet date but agreement to sell was effected on 1st March, 2013 i.e. before the balance sheet date. Registration of the sale deed on 15th April, 2013, simply provides additional information relating to the conditions existing at the balance sheet date. Therefore, adjustment to assets for sale of land is necessary in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013.

(ii) AS 4 (Revised) defines "Events occurring after the balance sheet date" as those significant events, both favorable and unfavorable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company. Accordingly, the acquisition of another company is an event occurring after the balance sheet date. However, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2013.

Applying provisions of the standard which clearly state that/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, the investment of ₹ 40 lakhs in April, 2013 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

(b) WDV of asset at the end of year 2011-12= ₹ 5,00,000 – ₹ 45,000 x 3 = ₹ 3,65,000

WDV of asset at the end of year 2011-12 (by reducing balance method)

= ₹ 5,00,000 $(1 – 0.15)^3$ = ₹ 3,07,062.50

Depreciation to be charged in year 2012-13

= (₹ 3,65,000 – ₹ 3,07,062.50) + 15% of ₹ 3,07,062.50

₹ 57,937.50 + 46,059.38 = ₹ 1,03,997 (approx.)

As per AS 5 'Net profit or loss for the period, Prior Period Items and Changes in Accounting Policies' the revision of remaining useful life is change in accounting estimate, and adoption of reducing balance method of depreciation instead of the straight-line method is change in accounting policy. Since it is difficult to segregate impact of these two changes, the entire amount of difference between depreciation at old rate and depreciation charged in 2012-13 (₹ 1,03,997- ₹ 45,000 = ₹ 58,997) is regarded as an effect of change in accounting estimate as per provisions of the standard. The effect of this change in accounting estimate should be properly disclosed in the financial statements of the company for the year ended 31st March, 2013.

(c) As per AS 11 (Revised) '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 recognised as income or as an expense in the period in which they arise. However, Ministry of Corporate Affairs has recently amended AS 11 through a notification. As per the notification, exchange difference arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to requisition of depreciable capital asset, can be added to or deducted from cost of asset. The MCA has given an option for the enterprises to capitalize the exchange differences arising on reporting of long term foreign currency monetary items till 31st March, 2020. Thus the company can capitalize the exchange differences arising due to long term loans linked with the acquisition of fixed assets.

Transaction 1: Calculation of exchange difference on fixed assets

Foreign Exchange Liability = $\frac{5,000}{50}$ = US $ 100 lakhs

Exchange Difference = US $ 100 lakhs x (₹ 54.98 – ₹ 50) = ₹ 498 lakhs.

Loss due to exchange difference amounting ₹ 498 lakhs will be capitalised and added in the carrying value of fixed assets. Depreciation on the unamortised amount will be provided in the remaining years

Transaction 2: Soft loan exchange difference (US $ 1 lakh i.e ₹ 50 lakhs)

Value of loan 31.3.13 → US $ 1 lakh x 54.98 = ₹ 54,98,000

AS 11 also provides that in case of liability designated as long-term foreign currency monetary item*, the exchange difference is to be accumulated in the Foreign Currency Monetary Item Translation Difference (FCMITD) and should be written off over the useful life of such long-term liability, by recognition as income or expenses in each of such periods.

Exchange difference between reporting currency (INR) and foreign currency (USD) as on 31.03.2013 = US$1.00 lakh X ₹ (54.98 – 50) = ₹ 4.98 lakh.

Loan account is to be increased to 54.98 lakh and FCMITD account is to be debited by 4.98 lakh. Since loan is repayable in 3 equal annual instalments, ₹ 4.98 lakh/3 = ₹ 1.66 lakh is to be charged in Profit and Loss Account for the year ended 31st March, 2013 and balance in FCMITD A/c ₹ (4.98 lakh – 1.66 lakh) = ₹ 3.32 lakh is to be shown on the 'Equity & Liabilities' side of the Balance Sheet as a negative figure under the head 'Reserve and Surplus' as a separate line item.

Note: The above answer is given on the basis that the company has availed the option under para 46A of AS 11

(d) (i) According to Schedule VI "An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents".

Therefore, operating cycle of Vasudha Ltd. will be computed as:

Raw material stock holding period + Work-in-progress holding period + Finished goods holding period + Debtors collection period

=3.5 + 1 + 4.5 + 6= 15 months

A Liability shall be classified as current when it is expected to be settled in the Company's normal operating cycle.

Since the operating cycle of Vasudha Ltd. is 15 months, trade payables expected to be paid in 14 months should be treated as a current liability.

(ii) Revised schedule VI does not require WIP to be disclosed in the Statement of Profit and Loss, thus amounts for which WIP have been completed at the beginning and at the end of the accounting period may not be disclosed. Therefore, the non-disclosure in the financial statements by the company may not amount to violation of Revised Schedule VI if the differences between opening and closing WIP are not material.

Question 2

Avi and Bishnu are partners of Abhay & Co. sharing profit and losses in the ratio 3 : 1 and Bishnu and Joe are partners of Bijoy & Co. sharing profit and losses in the ratio 2 : 1. On

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*Asset or liability which is expressed in foreign currency and has a term of 12 months or more at the time of origination of the asset or liability.

31st March, 2013, they decided to amalgamate and form a new firm M/s Abeejay & Co., wherein Avi, Bishnu and Joe would be partners sharing profit and losses in the ratio 3 : 2 : 1. The Balance Sheets of the two firms on 31st March, 2013 were as under:

Liabilities	Abhay & Co.	Bijoy & Co.	Assets	Abhay & Co.	Bijoy & Co.
	₹	₹		₹	₹
Capitals:			Building	3,50,000	2,80,000
Avi	5,31,000		Plant & Machinery	2,00,000	1,50,000
Bishnu	2,00,000	3,97,000	Vehicles	-	90,000
Joe		2,00,000	Furniture	-	10,000
Reserves	12,000	9,000	Office Equipments	38,000	45,000
Sundry Creditors	1,20,000	89,000	Stock in trade	65,000	70,000
Bank O/D	90,000	-	Sundry Debtors	1,00,000	90,000
Due to R & Co.	-	1,00,000	Bank Balances	80,000	60,000
			Cash in hand	20,000	-
			Due from R & Co.	1,00,000	-
	9,53,000	7,95,000		9,53,000	7,95,000

The amalgamated firm M/s Abeejay & Co. took over the business on the following terms:

(a) *Goodwill of Abhay & co. was worth ₹ 42,000 and that of Bijoy & Co. ₹ 30,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.*

(b) *The* following assets were valued as below:

	Abhay & Co. (₹)	Bijoy & Co. (₹)
Building	4,00,000	3,00,000
Plant & Machinery	2,50,000	2,00,000
Vehicles	-	98,000
Furniture	-	11,000
Office Equipments	39,000	50,000
Stock in trade	70,000	80,000

(c) *Provision for doubtful debt was carried forward at ₹ 4,000 in respect of Debtors of Abhay & co. and ₹ 3,000 in respect of Debtors of Bijoy & Co.*

(d) *Partners of new firm brought necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.*

You are required to:

(i) Prepare the Balance Sheet of the new firm as on 31st March, 2013.

(ii) Prepare Capital Accounts of the partners in the books of old firms. *(16 Marks)*

Answer

Balance Sheet of M/s Abeejay & Co. as at 31st March, 2013

Liabilities		₹	*Assets*		₹
Capitals:			Building (₹ 4,00,000 + ₹ 3,00,000)		7,00,000
Avi	7,71,000				
Bishnu	5,14,000		Plant & machinery		
Joe	2,57,000	15,42,000	(₹ 2,50,000+₹ 2,00,000)		4,50,000
Sundry creditors (1,20,000+89,000)		2,09,000	Office equipment (₹ 39,000+₹ 50,000)		89,000
Bank overdraft		90,000	Vehicle		98,000
			Furniture		11,000
			Stock-in-trade (₹ 70,000+₹ 80,000)		1,50,000
			Sundry debtors (₹ 1,00,000+₹ 90,000)	1,90,000	
			Less: Provision for doubtful debts (₹ 4,000+₹ 3,000)	(7,000)	1,83,000
			Bank balance (₹ 80,000+₹ 60,000)		1,40,000
			Cash in hand		20,000*
		18,41,000			18,41,000

Partners' Capital Accounts in the books of Abhay & Co.

Particulars	Avi ₹	Bishnu ₹	*Particulars*	Avi ₹	Bishnu ₹
To Capital A/cs – M/s Abeejay & Co.	6,48,000	2,39,000	By Balance b/d	5,31,000	2,00,000
			By Reserve (3:1)	9,000	3,000
			By Profit on Realisation A/c (W.N.4)	1,08,000	36,000
	6,48,000	2,39,000		6,48,000	2,39,000

* ₹ 20,000+₹ 1,59,000+₹ 25,667 –₹ 184,667 = ₹ 20,000.

Partners' Capital Accounts in the books of Bijoy & Co.

	Particulars	*Bishnu* ₹	*Joe* ₹		*Particulars*	*Bishnu* ₹	*Joe* ₹
To	Capital A/cs – M/s Abjeey & Co.	4,83,667	2,43,333	By	Balance b/d	3,97,000	2,00,000
				By	Reserve (2:1)	6,000	3,000
				By	Profit on Realisation (W.N.5)	80,667	40,333
		4,83,667	2,43,333			4,83,667	2,43,333

Working Notes:

1. Computation of purchase considerations

		Abhay & Co. ₹	*Bijoy& Co.* ₹
Assets:			
Goodwill		42,000	30,000
Building		4,00,000	3,00,000
Vehicle		-	98,000
Furniture		-	11,000
Plant & machinery		2,50,000	2,00,000
Office equipment		39,000	50,000
Stock-in-trade		70,000	80,000
Sundry debtors		1,00,000	90,000
Bank balance		80,000	60,000
Cash in hand		20,000	-
Due from R & Co.		1,00,000	-
	(A)	11,01,000	9,19,000
Liabilities:			
Creditors		1,20,000	89,000
Provision for doubtful debts		4,000	3,000
Due to R & Co.		-	1,00,000
Bank overdraft		90,000	-
	(B)	2,14,000	1,92,000
Purchase consideration (A-B)		8,87,000	7,27,000

2. Computation of proportionate capitals

	₹
M/s Abeejay & Co. (Purchase Consideration) (₹ 8,87,000+ ₹ 7,27,000)	16,14,000
Less: Goodwill adjustment	(72,000)
Total capital of new firm (Distributed in ratio 3:2:1)	15,42,000
Avi's proportionate capital	7,71,000
Bishnu's proportionate capital	5,14,000
Joe's proportionate capital	2,57,000

3. Computation of Capital Adjustments

	Avi	*Bishnu*	*Joe*	*Total*
	₹	₹	₹	₹
Balance transferred from Abhay & Co.	6,48,000	2,39,000		8,87,000
Balance transferred from Bijoy & Co.		4,83,667	2,43,333	7,27,000
	6,48,000	7,22,667	2,43,333	16,14,000
Less: Goodwill written off in the ratio of 3:2:1	(36,000)	(24,000)	(12,000)	(72,000)
Existing capital	6,12,000	6,98,667	2,31,333	15,42,000
Proportionate capital	7,71,000	5,14,000	2,57,000	15,42,000
Amount to be brought in (paid off)	1,59,000	(1,84,667)	25,667	

4. Realisation Account in the books of Abhay & Co.

		₹		₹
To Building		3,50,000	By Creditors	1,20,000
To Plant & machinery		2,00,000	By Bank overdraft	90,000
To Office equipment		38,000	By M/s Abeejay & Co. (purchase consideration) (W.N.1)	8,87,000
To Stock-in-trade		65,000		
To Sundry debtors		1,00,000		
To Bank balance		80,000		
To Cash in hand		20,000		
To Due from R & Co.		1,00,000		
To Partners' capital A/cs:				
Avi	1,08,000			
Bishnu	36,000	1,44,000		
		10,97,000		10,97,000

5. Realisation Account in the books of Bijoy & Co.

		₹			₹
To	Building	2,80,000	By	Creditors	89,000
To	Plant & machinery	1,50,000	By	Due to R & Co.	1,00,000
To	Office equipment	45,000	By	M/s Abjeejay & Co.	7,27,000
To	Vehicle	90,000		(purchase consideration)	
To	Furniture	10,000		(W.N.1)	
To	Stock-in-trade	70,000			
To	Sundry debtors	90,000			
To	Bank balance	60,000			
To	Partners' capital A/cs :				
	Bishnu 80,667				
	Joe 40,333	1,21,000			
		9,16,000			9,16,000

Note: The above answer has been given on the basis that Realization account is prepared while closing the books of Old firms and New firm takes over the business of both old firms.

Question 3

(a) *M Limited recently made a public issue of debentures. The following information is available in respect of the issue:*

(i) 3,00,000 partly convertible debentures of face value and issue price of ₹ 100 per debenture were issued;

(ii) Conversion of 50% of each debenture is to be done on expiry of 6 months from date of close of issue;

(iii) Date of closure of subscription list is 1st June, 2012. Date of allotment is 1st July, 2012;

(iv) Interest on debenture at the rate of 12% is payable from date of allotment;

(v) Equity share of ₹ 10 each are issued at ₹ 50 per share for the purpose of conversion;

(vi) Underwriting commission is 2%;

(vii) 2,25,000 debentures were applied for;

(viii) Interest on debentures is payable half yearly on 30th September and 31st March.

Give Journal entries for all transactions relating to the above, including cash and bank entries for the year ended 31st March, 2013. *(8 Marks)* *(b) The summarized Balance Sheet of Entyce Ltd. as on 31st March, 2013 read as under:*

Liabilities	₹
Share Capital: 4,00,000 equity shares of ₹10 each fully paid up	*40,00,000*
General Reserve	*50,00,000*
Debenture Redemption Reserve	*35,00,000*
12% Convertible Debentures : 80,000 Debentures of ₹100 each	*80,00,000*
Other Loans	*45,00,000*
Current Liabilities and Provisions	*90,00,000*
	3,40,00,000
Assets:	
Fixed Assets (at cost less depreciation)	*1,50,00,000*
Debenture Redemption Reserve Investments	*30,00,000*
Cash and Bank Balances	*40,00,000*
Other Current Assets	*1,20,00,000*
	3,40,00,000

The debentures are due for redemption on 1st April, 2013. The terms of issue of debentures provided that they were redeemable at a premium 5% and also conferred option to the debentureholders to convert 25% of their holding into equity shares at a predetermined price of ₹11.90 per share and the balance payment in cash.

Assuming that:

(i) Except for debentureholders holding 12,000 debentures in aggregate, rest of them exercised the option for maximum conversion,

(ii) The investments realized ₹32,00,000 on sale,

(iii) All the transactions were taken place on 1st April, 2013 without any lag, and

(iv) Premium on redemption of debentures is to be adjusted against General Reserve.

Redraft the Balance Sheet of Entyce Ltd. as on 01.04.2013 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary. (8 Marks)

Answer

(a) Journal Entries

Date	Particulars		Amount Dr. ₹	Amount Cr. ₹
1.6.2012	Bank A/c	Dr.	2,25,00,000	
	To Debenture Application and Allotment A/c			2,25,00,000
	(Application money received on 2,25,000 debentures @ ₹ 100 each)			
1.7.2012	Debenture Application and Allotment A/c	Dr.	2,25,00,000	
	Underwriters' A/c	Dr.	75,00,000	
	To 12% Debentures A/c			3,00,00,000
	(Allotment of 2,25,000 debentures to applicants and 75,000 debentures to underwriters)			
	Underwriting Commission	Dr.	6,00,000	
	To Underwriters' A/c			6,00,000
	(Commission payable to underwriters @ 2% on ₹ 3,00,00,000)			
	Bank A/c	Dr.	69,00,000	
	To Underwriters' A/c			69,00,000
	(Amount received from underwriters in settlement of account)			
30.09.2012	Debenture Interest A/c	Dr.	9,00,000	
	To Bank A/c			9,00,000
	(Interest paid on debentures for 3 months @ 12% on ₹ 3,00,00,000)			
01.12.2012	12% Debentures A/c	Dr.	1,50,00,000	
	To Equity Share Capital A/c			30,00,000
	To Securities Premium A/c			1,20,00,000
	(Conversion of 50% of debentures into shares of ₹ 50 each with a face value of ₹ 10)			

31.3.2013	Debenture Interest A/c	Dr.	12,00,000	
	To Bank A/c			12,00,000
	(Interest paid on debentures for the half year)			
31.03.2013	Profit & loss A/c	Dr.	6,00,000	
	To Underwriting commission			6,00,000
	(Being underwriting commission charged to Profit & loss A/c at the year end)			
31.03.2013	Profit & Loss A/c	Dr.	21,00,000	
	To Debenture Interest			21,00,000
	(Being interest on debenture 12,00,000 + 9,00,000 charged to Profit & loss A/c at the year end)			

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2013

Interest on ₹1,50,00,000 for 6 months @ 12%	=	₹ 9,00,000
Interest on ₹ 1,50,00,000 for 2 months @ 12%	=	₹ 3,00,000
		₹12,00,000

(b) Entyce Limited

Balance Sheet as on 01.04.2013

Particulars	Note No	Figures as at the end of current reporting period
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	55,00,000
(b) Reserves and Surplus	2	85,85,000
(2) Non-Current Liabilities		
(a) Long-term borrowings - Unsecured Loans		45,00,000
(3) Current Liabilities		
(a) Short-term provisions		90,00,000
Total		2,75,85,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		

(i) Tangible assets		1,50,00,000
(2) Current assets		
(a) Cash and cash equivalents		5,85,000
(b) Other current assets		1,20,00,000
Total		2,75,85,000

Notes to Accounts

		₹
1 Share Capital		
5,50,000 Equity Shares of ₹ 10 each		55,00,000
2 Reserve and Surplus		
General Reserve	50,00,000	
Add: Debenture Redemption Reserve transfer	35,00,000	
	85,00,000	
Add: Profit on sale of investments	2,00,000	
	87,00,000	
Less: Premium on redemption of debentures (80,000 x ₹ 5)	(4,00,000)	83,00,000
Securities Premium Account (1,50,000 x ₹ 1.9)		2,85,000
		85,85,000

Working Notes:

(i) Calculation of number of shares to be allotted

Total number of debentures	80,000
Less : Number of debentures not opting for conversion	12,000
	68,000
25% of 68,000	17,000
Redemption value of 17,000 debentures	₹ 17,85,000

Number of Equity Shares to be allotted:

$$= \frac{17,85,000}{11.90} = 1,50,000 \text{ shares of ₹ 10 each.}$$

(ii) Calculation of cash to be paid

Number of debentures	80,000
Less: number of debentures to be converted into equity shares	17,000
	63,000

Redemption value of 63,000 debentures (63,000 × ₹ 105)	₹ 66,15,000

(iii) Cash and Bank Balance

	₹
Balance before redemption	40,00,000
Add : Proceeds of investments sold	32,00,000
	72,00,000
Less : Cash paid to debenture holders	(66,15,000)
	5,85,000

Question 4

The summarized Balance Sheet of Vasant Ltd. as on 31st March, 2013, being the date of voluntary winding up is as under:

Liabilities	*Amount ₹*	*Assets*	*Amount ₹*
Share Capital:		*Land & Building*	*1,30,000*
Issued: 10% Pref. Shares of ₹10 each	*1,50,000*	*Sundry Current Assets*	*4,36,000*
10,000 Equity Shares of ₹10 each, fully paid up	*1,00,000*	*Profit and Loss Account*	*35,000*
5,000 Equity Shares of ₹10 each, ₹8 per share paid up	*40,000*	*Debenture issue expenses not written off*	*2,000*
13% Debentures	*1,50,000*		
Mortgage Loan	*70,000*		
Bank overdraft	*30,000*		
Trade Creditors	*38,000*		
Income Tax Arrears (assessment concluded in February, 2013)	*25,000*		
	6,03,000		*6,03,000*

Mortgage loan was secured against Land & Building. Debentures were secured by a floating charge on all assets. The company was unable to meet the payments and therefore the debentureholders appointed a Receiver for the debentureholders. He brought the Land & Buildings to auction and realized ₹1,60,000. He also took charge of Sundry Assets of value of ₹2,36,000 and realized ₹2,00,000. The Bank overdraft was secured by personal guarantee of the directors of the company and on the Bank raising a demand, the Directors paid off the due from their personal resources. Costs incurred by the Receiver were ₹ 1,950 and by the Liquidator ₹3,000. The receiver was not entitled to any remuneration but the Liquidator was to receive 2% fee on the value of assets realized by him. Preference Shareholders have not been paid dividend for period after 31st March, 2011 and interest for the last half year was due to the Debentureholders. Rest of the assets were realized at ₹1,50,000.

Prepare the accounts to be submitted by the receiver and Liquidator. *(16 Marks)*

Answer

Receiver's Receipts and Payments Account

Receipts	₹	₹	*Payments*	₹	₹
Sundry Assets realised		2,00,000	Costs of the Receiver		1,950
Surplus received from Mortgage loan : -			Preferential payments:		
Sale Proceeds of land			Income Taxes (raised within 12 months)	-	25,000
and building	1,60,000		Debentures holders:		
Less: Applied to			Principal amount	1,50,000	
discharge of			Interest for half year	9,750	1,59,750
mortgage loan	(70,000)	90,000	Surplus transferred to the Liquidator		1,03,300
		2,90,000			2,90,000

Liquidator's Final Statement of Account

Receipts	₹	*Payments*		₹
Surplus received from Receiver	1,03,300	Cost of Liquidation		3,000
		Remuneration to Liquidator		
Assets Realised	1,50,000	(1,50,000 x 2%)		3,000
Calls on Contributories :		Unsecured Creditors :		
On holder of 5,000 Equity Shares at the rate of ₹ 1.38 per share	6,900	Trade	38,000	
		Directors for Bank O/D cleared	30,000	68,000
		Preferential Shareholders:		
		Capital	1,50,000	
		Arrears of Dividends	30,000	1,80,000
		Equity shareholders:		
		Return of money to holders of 10,000 equity shares at 62 paise each		6,200
	2,60,200			2,60,200

Working Note:

Call from partly paid shares

Deficit before call from Equity Shares

= ₹(1,03,300+1,50,000) – ₹(3,000+3,000+68,000+1,80,000) = ₹ 700

Notional call on 5,000 shares @ ₹ 2 each 10,000

Net balance after notional call (a) 9,300

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

Refund on fully paid shares $\frac{9,300}{15,000}$ = ₹ 0.62

Calls on partly paid share (₹ 2 — ₹ 0.62) = ₹ 1.38

Question 5

Following information has been provided in respect of Watson Power Generation Project:

1. *Date of commercial operation/work completed date : 1st April, 1995*
2. *Capital Cost at the beginning of the year 2010-11 : ₹ 135.39 Crore*
3. *Useful Life : 35 years*
4. *Details of allowed capital expenditure, details of actual repayment of loan and weighted average rate of interest on loan is as follows:*

	2010-11	*2011-12*	*2012-13*
	(₹ in Crore)	*(₹ in Crore)*	*(₹ in Crore)*
Additional Capital Expenditure (allowed above)	*1.63*	*0.98*	*0.52*
Repayment of Loan during the year (net)	*0.96*	*0.87*	*0.68*
Weighted Average Rate of Interest on Loan	*7.35%*	*7.48%*	*7.50%*
Value of Land	*0.00*	*0.00*	*0.00*

5. *Depreciation recovered upto 2008-09 = ₹ 49.05 Crore*
6. *Depreciation recovered in 2009-10 = ₹ 3.26 Crore*
7. *Cumulative Repayment of Loan upto 2009-10 = ₹ 14,00 Crore*

From the above information, calculate the following as per the Central Electricity Commission (Terms and Conditions of Tariff) Regulations, 2009:

(a) *Average Capital Cost;*

(b) *Return on Equity;*

(c) *Interest on Loans;*

(d) *Depreciation.* *(16 Marks)*

Answer

(a) Average capital cost

Capital Cost (₹ in crores)

	2010-11	2011-12	2012-13
	₹	₹	₹
Opening capital cost (A)	135.39	137.02	138
Additional capital expenditure (allowed above) (B)	1.63	0.98	0.52
Closing Capital cost (A)+(B)	137.02	138	138.52
Average Capital cost	136.21	137.51	138.26

(b) Return on equity

Debt-Equity ratio

Debt-Equity ratio for the purpose of return on equity for the period 2010-13 is 70:30

	2010-11 ₹	2011-12 ₹	2012-13 ₹
Opening Capital cost (A)	135.39	137.02	138
Equity-Opening considered now [(A) x 0.30] = (B)	40.617	41.106	41.4
Additional allowable capital expenditure (C)	1.63	0.98	0.52
Addition of Equity due to admitted additional capital expenditure [(C) x 0.30]=(D)	0.489	0.294	0.156
Equity-Closing ((B)+(D))=(E)	41.106	41.4	41.556
Average equity [(B)+(E)]/2 = (F)	40.861	41.253	41.478
Return on Equity @ 14% of (F)	5.720	5.775	5.807

(c) Interest on loan

	2010-11 ₹	2011-12 ₹	2012-13 ₹
Opening Capital cost (A)	135.39	137.02	138
Gross Opening loan -considered at 70% of (A)=(B)	94.773	95.914	96.6
Cumulative Repayment of Loan upto previous year (C)	14	14.96	15.83
Net Loan Opening (B)-(C)=(D)	80.773	80.954	80.77
Additional capital expenditure (allowed above) (E)	1.63	0.98	0.52

Addition of loan due to approved additional capital expenditure- considered at 70% of (E)=(F)	1.141	0.686	0.364
Repayment of loan during the year (net)(G)	0.96	0.87	0.68
Net Loan Closing [(D)+(F)-(G)=(H)]	80.954	80.77	80.454
Average Loan{(D)+(H)/2]=I	80.864	80.862	80.612
Weighted Average Rate of Interest on Loan (J)	7.35%	7.48%	7.50%
Interest on Loan(I) x (J)	5.944	6.048	6.046

(d) Depreciation

Name of the Power Station : Wastan Power Generation Project	
Date of commercial operation /Work Completed Date	1/4/95
Beginning of Current year	1/4/10
Useful life	35 Years
Remaining Useful Life	20 Years

(Figures in ₹ crores)

S.N.		2010-11	2011-12	2012-13
	Capital cost at beginning of the year	135.39	137.02	138
	Additional capitalisation during the year	1.63	0.98	0.52
	Closing capital cost	137.02	138	138.52
1	Average capital cost	136.205	137.51	138.26
2	*Less*: Value of Land	0.000	0.000	0.000
3	Capital cost for depreciation (1-2)	136.205	137.51	138.26
	Depreciable value (90% of 3)	122.585	123.759	124.434
5	Depreciation recovered up to 2008-09	49.05		
6	Depreciation recovered in 2009-10	3.26		
7	Depreciation recovered upto previous year	52.31	55.824	59.400
8	Balance depreciation to be recovered (4-7)	70.27	67.936	65.035
9	Balance useful life of 35 years	20	19	18
10	Yearly depreciation from 2010-11 (8/9)	3.514	3.576	3.613
11	Depreciation recovered upto the year (7+10)	55.824	59.400	63.013

Question 6

(a) *Martis Ltd. has several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost, plus a fixed percentage (mark-up) to give the normal selling price. The mark-up is credited to a memorandum departmental 'Mark-up account', any reduction in selling prices (mark-down) will require adjustment in the stock account and in mark-up account. The mark up for Department A for the last three years has been 25%. Figures relevant to Department A for the year ended 31st March, 2013 were as follows:*

Opening stock as on 1st April, 2012, at cost	*₹ 65,000*
Purchase at cost	*₹ 2,00,000*
Sales	*₹ 3,00,000*

It is further ascertained that :

(1) Shortage of stock found in the year ending 31.03.2013, costing ₹ 1,000 were written off.

(2) Opening stock on 01.04.12 including goods costing ₹ 6,000 had been sold during the year and bad been marked down in the selling price by ₹ 600. The remaining stock had been sold during the year.

(3) Goods purchased during the year were marked down by ₹ 1,200 from a cost of ₹ 15,000. Marked-down stock costing ₹ 5,000 remained unsold on 31.03.13.

(4) The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.

You are required to prepare :

(i) A Departmental Trading Account for Department A for the year ended 31st March, 2013 in the books of Head Office.

(ii) A Memorandum Stock Account for the year.

(iii) A Memorandum Mark-up Account for the year. *(12 Marks)*

(b) *From the following information of STP Bank Ltd. pertaining to the financial year 2012-13, compute the provisions to be made in the Profit and Loss Account:*

	₹ in lakh
Assets	
Standard	*30,000*
Sub-standard	*20,000*
Doubtful:	
For one year (secured)	*8,000*
For two years and three years (secured)	*2,500*
For more than three years (secured by mortgage of	

Plant & Machinery ₹ 500 lakh)	*2,000*
Loss Assets	*1,700*

(4 Marks)

Answer

(i) Department Trading Account
For the year ending on 31.03.2013
In the books of Head Office

Particulars	₹	*Particulars*	₹
To Opening Stock	65,000	By Sales	3,00,000
To Purchases	2,00,000	By Shortage	1,000
To Gross Profit c/d	58,880	By Closing Stock	22,880
	3,23,880		3,23,880

(ii) Memorandum stock account (for Department A) (at selling price)

Particulars	₹	*Particulars*	₹
To Balance b/d (₹ 65,000+25% of ₹ 65,000)	81,250	By Profit & Loss A/c (Cost of Shortage)	1,000
To Purchases (₹ 2,00,000 + 25% of ₹ 2,00,000)	2,50,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (₹ 1,000 x 25%)	250
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	1,200
		By Debtors A/c (Sales)	3,00,000
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	600
		By Balance c/d	28,200
	3,31,250		3,31,250

(iii) Memorandum Departmental Mark-up Account

Particulars	₹	*Particulars*	₹
To Memorandum Departmental Stock A/c	250	By Balance b/d (₹ 81,250 x 25/125)	16,250

(₹ 1,000 × 25/100)			
To Memorandum Departmental Stock A/c	1200	By Memorandum Departmental Stock A/c(2,50,000 x 25/125)	50,000
To Memorandum Departmental Stock A/c	600		
To Gross Profit transferred to Profit & Loss A/c	58,880		
To Balance c/d [(₹ 28,200 + 400*) x 25/125 - 400]	5,320		
	66,250		66,250

*[₹ 1,200 ×5,000/15,000] = 400

Working Notes:

(i) Calculation of Cost of Sales

		₹
A	Sales as per Books	3,00,000
B	*Add*: Mark-down in opening stock (given)	600
C	*Add*: mark-down in sales out of current Purchases (₹ 1,200 x 10,000 /15,000)	800
D	Value of sales if there was no mark-down (A+B+C)	3,01,400
E	*Less*: Gross Profit (25/125 of ₹ 3,01,400) subject to Mark Down (₹ 600 + ₹ 800)	(60,280)
F	Cost of sales (D-E)	2,41,120

(ii) Calculation of Closing Stock

		₹
A	Opening Stock	65,000
B	*Add*: Purchases	2,00,000
C	*Less*: Cost of Sales	(2,41,120)
D	*Less*: Shortage	(1,000)
E	Closing Stock (A+B-C-D)	22,880

(b) Calculation of amount of provision to be made in the Profit and Loss Account

Classification of Assets	*Amount of Advances*	*% age of provision*	*Amount of provision*

	(₹ in lakhs)		% (₹ in lakhs)
Standard assets	30,000	0.40	120
Sub-standard assets *	20,000	15	3,000
Doubtful assets:			
For one year (secured)	8,000	25	2,000
For two to three years (secured)	2,500	40	1,000
For more than three years: unsecured	1,500	100	1,500
secured	500	100	500
Loss Assets	1,700	100	1,700
Total provision required			9,820

*Considered as fully secured

Question 7

*Answer any **four** of the following:*

(a) *Classify the following into either operating or finance lease:*

   (i) *Lessee has option to purchase the asset at lower than fair value, at the end of lease term;*

   (ii) *Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of the lease term;*

   (iii) *Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee;*

   (iv) *Present value (PV) of Minimum lease payment (MLP) = "X". Fair value of the asset is "Y".*

(b) *Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred ₹ 10 lakh on research during first 5 months of the financial year 2012-13. The development of the process began on 1st September, 2012 and upto 31st March, 2013, a sum of ₹ 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria.*

   From 1st April, 2013, the Company has implemented the new process design and it is likely that this will result in after tax saving of ₹ 2 lakh per annum for next five years.

   The cost of capital is 10%. The present value of annuity factor of ₹ 1 for 5 years @ 10% is 3.7908.

   Decide the treatment of Research and Development Cost of the project as per AS 26.

(c) *State the basis on which the following common expenses, the benefit of which is shared by all the departments is distributed among the departments:*

(i) Rent, rates and taxes, insurance of building;

(ii) Selling expenses such as discount, bad debts, selling commission and other such selling expenses;

(iii) Carriage Inward;

(iv) Depreciation;

(v) Interest on loan;

(vi) Profit or loss on sale of investment;

(vii) Wages;

(viii) Lighting and Heating Expenses.

(d) Raj & Co. has taken a loan of US$ 20,000 at the beginning of the financial year for a specific project at an interest rate of 6% per annum, payable annually. On the day of taking loan, the exchange rate between currencies was ₹ 48 per 1 US$. The exchange rate at the closing of the financial year was ₹ 50 per 1 US$. The corresponding amount could have been borrowed by the company in Indian Rupee at an interest rate of 11 % per annum. Determine the treatment of borrowing cost in the books of accounts.

(e) Explain in short, the following principles and term of insurance business:

(i) Principle of Indemnity;

(ii) Insurable interest;

(iii) Principle of "UBERRIMAE FIDEI".

(iv) Catastrophic Loss *(4 x 4 = 16 Marks)*

Answer

(a) (i) If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease*.

(ii) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.

(iii) Since the asset is procured only for the use of lessee, it is a finance lease.

(iv) The lease is a finance lease if X = Y, or where X substantially equals Y.

(b) <u>Research Expenditure</u> – According to AS 26 'Intangible Assets', the expenditure on research of new process design for its product ₹ 10 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. It is presumed that the entire expenditure is incurred in the financial year 2012-13. Hence, it should be written off as an expense in that year itself.

<u>Cost of internally generated intangible asset</u> – it is given that development phase expenditure amounting ₹ 8 lakhs incurred upto 31st March, 2013 meets asset recognition

criteria. As per AS 26, for measurement of such internally generated intangible asset, fair value can be estimated by discounting estimated future net cash flows.

Savings (after tax) from implementation of new design for next 5 years	₹ 2 lakhs p.a.
Company's cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908
Present value of net cash flows (₹ 2 lakhs x 3.7908)	₹ 7.582 lakhs

The cost of an internally generated intangible asset would be lower of cost value ₹ 8 lakhs or present value of future net cash flows ₹ 7.582 lakhs.

Hence, cost of an internally generated intangible asset will be ₹ 7.582 lakhs.

The difference of ₹ 0.418 lakhs (i.e. ₹ 8 lakhs – ₹ 7.582 lakhs) will be amortized by Plymouth for the financial year 2012-13.

Amortisation - The company can amortise ₹ 7.582 lakhs over a period of five years by charging ₹ 1.5164 lakhs per annum from the financial year 2013-2014 onwards.

(c) Allocation of Expenses

S.No.	*Expenses*	*Basis*
1.	Rent, rates and taxes, repairs, insurance of building	Floor area occupied by each department (if given) other wise on time basis
2.	Selling expenses, *e.g.,* discount, bad debts, selling commission, and other such selling expenses	Sales of each department
3.	Carriage inward	Purchases of each department
4.	Depreciation	Value of assets of each department otherwise on time basis
5	Interest on loan	Utilisation of loan amount in each department (if can be identified), otherwise in combined P& L A/c
6	Profit & loss on sale of investment	Value of investments sold in each department (if value can be identified), otherwise in combined P& L A/c
7	Wages	Time devoted to each department
8.	Lighting and Heating expenses (eg. energy expenses)	Consumption of energy by each department

(d) The following computations would be made to determine the amount of borrowing costs for the purpose of AS 16 ' Borrowing Costs':

Interest for the period = US \$ 20,000 × ₹ 50 per US \$ × 6% = ₹ 60,000.

Increase in the liability towards the principal amount

= US$ 20,000 × ₹ (50-48) = ₹ 40,000. (A)

Interest that would have resulted if the loan was taken in Indian Currency

= US $ 20,000 × 48 × 11% = ₹ 1,05,600

Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 1,05,600 – ₹ 60,000 = ₹ 45,600 (B)

In the above case, ₹ 40,000 (A) is less than ₹ 45,600 (B), therefore the entire exchange difference of ₹ 40,000 would be considered as borrowing costs. The total borrowing cost would be ₹ 100000 (₹ 60000+ ₹ 40000)

(e) (i) Principle of indemnity: Insurance is a contract of indemnity. The insurer is called indemnifier and the insured is the indemnified. In a contract of indemnity, only those who suffer loss are compensated to the extent of actual loss suffered by them. One cannot make profit by insuring his risks.

(ii) Insurable interest: All and sundry cannot enter into contracts of insurance. For example, A cannot insure the life of B who is a total stranger. But if B. happens to be his wife or his debtor or business manager, A has insurable interest i.e. vested interest and therefore he can insure the life of B. For every type of policy insurable interest is insisted upon. In the absence of such interest the contract will amount to a wagering contract.

(iii) Principle of UBERRIMAE FIDEI: Under ordinary law of contract there is no positive duty to tell the whole truth in relation to the subject-matter of the contract. There is only the negative obligation to tell nothing but the truth. In a contract of insurance, however there is an implied condition that each party must disclose every material fact known to him. All contracts of insurance are contracts of uberrima fidei, i.e., contracts of utmost good faith. This is because the assessment of the risk and the determination of the premium by the insurer depend on the full and frank disclosure of all material facts in the proposal form.

(iv) Catastrophic Loss: A loss (or related losses) which is unbearable i.e. it causes severe consequences such as bankruptcy to a family, organization, or insurer.