

PAPER – 1 : ACCOUNTING

Answer all questions.

Working notes should form part of the answer.

Question 1

The following is the Balance Sheet of A Ltd. as at 31st March, 2006:

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	<u>34,000</u>
	<u>17,60,000</u>		<u>17,60,000</u>

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, 2006 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, 2006. 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, 2006 after the takeover. (20 Marks)

Answer

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

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To	Stock	2,20,000	By	Equity Shareholders (Loss)	76,000
To	Debtors	2,60,000			
To	Goodwill	1,30,000			
To	Bank (Exp.)	<u>16,000</u>			
		<u>16,06,000</u>			<u>16,06,000</u>

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	<u>1,60,000</u>
		<u>7,36,000</u>			<u>7,36,000</u>

10% Debentures Account

To	Bank	<u>4,00,000</u>	By	Balance b/d	<u>4,00,000</u>
		<u>4,00,000</u>			<u>4,00,000</u>

Loan from A Account

To	Bank	<u>1,60,000</u>	By	Balance b/d	<u>1,60,000</u>
		<u>1,60,000</u>			<u>1,60,000</u>

Misc. Expenses Account

To	Balance b/d	<u>34,000</u>	By	Equity shareholders	<u>34,000</u>
		<u>34,000</u>			<u>34,000</u>

General Reserve Account

To	Equity shareholders	<u>80,000</u>	By	Balance b/d	<u>80,000</u>
		<u>80,000</u>			<u>80,000</u>

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)	<u>6,10,000</u>
		<u>12,10,000</u>			<u>12,10,000</u>

Equity Shares in B Ltd. Account

To	B Ltd.	<u>6,10,000</u>	By	Equity shareholders	<u>6,10,000</u>
		<u>6,10,000</u>			<u>6,10,000</u>

Equity Share Holders Account

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

B Ltd

Balance Sheet as on 1st April, 2006 (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 <u>15,000</u>			
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 <u>26,000</u>	1,94,000

Working Notes:

1. Valuation of Goodwill	Rs.
Average profit	1,24,400
Less: 8% of Rs.8,80,000	<u>70,400</u>
Super profit	<u>54,000</u>
Value of Goodwill = 54000 x 4	<u>2,16,000</u>
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	<u>2,60,000</u>
Total Assets	15,56,000
Less: Creditors	3,20,000
Provision for bad debts	<u>26,000</u>
Net Assets	<u>12,10,000</u>

* 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.

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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

$$\frac{40,000}{1,60,000} \times 1,00,000 \quad \text{Rs. } 25,000$$

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

Question 2

'X' and 'Y' carrying on business in partnership sharing Profit and Losses equally, wished to dissolve the firm and sell the business to 'X' Limited Company on 31-3-2006, 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	<u>4,000</u>
	<u>3,10,000</u>		<u>3,10,000</u>

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. (16 Marks)

Answer

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	<u>3,300</u>	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/c17,465 B's Capital A/c17,465	<u>34,930</u>			
	<u>4,01,700</u>			<u>4,01,700</u>

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	<u>3,485</u>	<u>2,445</u>	By Realisation a/c - Profit	<u>17,465</u>	<u>17,465</u>
	<u>1,67,465</u>	<u>1,17,465</u>		<u>1,67,465</u>	<u>1,17,465</u>

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)	<u>1,930</u>	By B's Capital A/c- Final Payment		<u>2,445</u>
	<u>5,930</u>			<u>5,930</u>

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Working Notes:

- 1 Calculation of Purchase consideration:

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

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*.

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

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

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)	<u>3,300</u>
	62,700
Less: Amount paid to creditors	<u>59,000</u>
	3,700
Less: Commission for cash paid to creditors (3% on 59,000)	<u>1,770</u>
Net amount received	<u>1,930</u>

* 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 $\frac{1}{2}$ =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.

Question 3

The following are the summarized Balance Sheets of 'X' Ltd. as on March 31, 2005 and 2006:

Liabilities	As on 31.3.2005 (Rs.)	As on 31.3.2006 (Rs.,)
Equity share capital	10,00,000	12,50,000
Capital Reserve	---	10,000
General Reserve	2,50,000	3,00,000
Profit and Loss A/c	1,50,000	1,80,000
Long-term loan from the Bank	5,00,000	4,00,000
Sundry Creditors	5,00,000	4,00,000
Provision for Taxation	50,000	60,000
Proposed Dividends	<u>1,00,000</u>	<u>1,25,000</u>
	<u>25,50,000</u>	<u>27,25,000</u>
Assets	Year 2005 (Rs.)	Year 2006 (Rs.)
Land and Building	5,00,000	4,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry Debtors	4,00,000	4,20,000
Cash in Hand	2,00,000	1,65,000
Cash at Bank	<u>3,00,000</u>	<u>4,10,000</u>
	<u>25,50,000</u>	<u>27,25,000</u>

Additional Information:

- (i) Dividend of Rs.1,00,000 was paid during the year ended March 31, 2006.
- (ii) Machinery during the year purchased for Rs.1,25,000.
- (iii) Machinery of another company was purchased for a consideration of Rs.1,00,000 payable in equity shares.
- (iv) Income-tax provided during the year Rs.55,000.
- (v) Company sold some investment at a profit of Rs.10,000, which was credited to Capital reserve.
- (vi) There was no sale of machinery during the year.

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(vii) Depreciation written off on Land and Building Rs.20,000.

From the above particulars, prepare a cash flow statement for the year ended March, 2006 as per AS 3 (Indirect method). (16 Marks)

Answer

Cash Flow Statement for the year ending on March 31, 2006

	Rs.	Rs.
I. Cash flows from Operating Activities		
Net profit made during the year (W.N.1)	2,60,000	
Adjustment for depreciation on Machinery (W.N.2)	55,000	
Adjustment for depreciation on Land & Building	<u>20,000</u>	
Operating profit before change in Working Capital	3,35,000	
Decrease in Stock	20,000	
Increase in Sundry Debtors	(20,000)	
Decrease in Sundry Creditors	(1,00,000)	
Income-tax paid	<u>(45,000)</u>	
Net cash from operating activities		1,90,000
II. Cash flows from Investing Activities		
Purchase on Machinery	(1,25,000)	
Sale of Investments	<u>60,000</u>	(65,000)
III. Cash flows from Financing Activities		
Issue of equity shares (2,50,000-1,00,000)	1,50,000	
Repayment of Long term loan	(1,00,000)	
Dividend paid	<u>(1,00,000)</u>	<u>(50,000)</u>
Net increase in cash and cash equivalent		75,000
Cash and cash equivalents at the beginning of the period		<u>5,00,000</u>
Cash and cash equivalents at the end of the period		<u>5,75,000</u>

Working Notes:

(i)	Net Profit made during the year ended 31.3.2006	
	Increase in P & L (Cr.) Balance	30,000
Add:	Transfer to general reserve	50,000
Add:	Provision for taxation made during the year	55,000
Add:	Provided for proposed dividend during the year	<u>1,25,000</u>
		<u>2,60,000</u>

(ii)		Machinery Account			
		Rs.			Rs.
To	Balance b/d	7,50,000	By	Depreciation (Bal. Fig.)	55,000
To	Bank	1,25,000	By	Balance c/d	9,20,000
To	Equity share capital	<u>1,00,000</u>			
		<u>9,75,000</u>			<u>9,75,000</u>
(iii)		Provision for Taxation Account			
		Rs.			Rs.
To	Cash (Bal. Fig.)	45,000	By	Balance b/d	50,000
To	Balance c/d	<u>60,000</u>	By	P & L A/c	<u>55,000</u>
		<u>1,05,000</u>			<u>1,05,000</u>
(iv)		Proposed Dividend Account			
		Rs.			Rs.
To	Bank	1,00,000	By	Balance b/d	1,00,000
To	Balance c/d	<u>1,25,000</u>	By	P & L A/c (Bal. Fig.)	<u>1,25,000</u>
		<u>2,25,000</u>			<u>2,25,000</u>
(v)		Investment Account			
		Rs.			Rs.
To	Balance b/d	1,00,000	By	Bank A/c	60,000
To	Capital Reserve A/c (Profit on sale of investment)	10,000		(Balancing figure for investment sold)	
		<u>1,10,000</u>	By	Balance c/d	<u>50,000</u>
					<u>1,10,000</u>

Question 4

- (a) The life fund of Well-Life Assurance Co. was Rs.90,00,000 as on 31st December, 2005. The interim bonus paid during the valuation period was Rs.1,50,000. The periodical actuarial valuation determined the net liability at Rs.75,00,000. Surplus brought forward from the previous valuation was Rs.9,00,000. The directors of the company proposed to carry forward Rs.10,00,000 and to divide the balance between the shareholders and the policy holders. You are required to show:
- The valuation Balance Sheet.
 - The Net Profit for the valuation period.
 - The distribution of the surplus.

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- (b) The following is an extract from the Trial Balance of Dream Bank Ltd. as at 31st March, 2006:

Rebate on bills discounted as on 1-4-2005	68,259 (Cr.)
Discount received	1,70,156 (Cr.)

Analysis of the bills discounted reveals as follows:

Amount (Rs.)	Due date
2,80,000	June 1, 2006
8,72,000	June 8, 2006
5,64,000	June 21, 2006
8,12,000	July 1, 2006
6,00,000	July 5, 2006

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2006 and pass Journal Entries. The rate of discount may be taken at 10% per annum. (8+8= 16 Marks)

Answer

- (a) Well Life Assurance Co. Ltd.
Valuation Balance Sheet as on Dec. 31, 2005

Liabilities	Amount Rs.	Assets	Amount Rs.
To Net liability as per actuarial valuation	75,00,000	By Life Fund as per Balance Sheet	90,00,000
To Surplus (Bal. Fig.)	<u>15,00,000</u>		
	<u>90,00,000</u>		<u>90,00,000</u>
Net Profit for the valuation period:			Rs.
Surplus as per valuation balance sheet			15,00,000
Add: Interim Bonus distributed			<u>1,50,000</u>
			16,50,000
Less: Surplus at the beginning			<u>9,00,000</u>
Net profit for the valuation period			<u>7,50,000</u>
Distribution of Surplus			
Total Surplus			16,50,000
Less: Surplus to be carried forward			<u>10,00,000</u>
			<u>6,50,000</u>

Shareholders (5% of Rs. 6,50,000)		32,500
Policy holders (95% of Rs. 6,50,000)	6,17,500	
Less: Interim bonus already distributed	<u>1,50,000</u>	<u>4,67,500</u>
		<u>5,00,000</u>

- (b) The amount of rebate on bills discounted as on 31st March, 2006 for the period which has not been expired upto that day will be calculated as follows:

Discount on Rs.2,80,000 for 62 days @ 10%	4,756
Discount on Rs.8,72,000 for 69 days @ 10%	16,484
Discount on Rs.5,64,000 for 82 days @ 10%	12,671
Discount on Rs.8,12,000 for 92 days @ 10%	20,467
Discount on Rs.6,00,000 for 96 days @ 10%	<u>15,781</u>
Total	<u>70,159</u>

The amount of discount to be credited to the profit and loss account will be:

	Rs.
Transfer from rebate on bills discounted as on 31.03.2005	68,259
Add: Discount received during the year	<u>1,70,156</u>
	2,38,415
Less: Rebate on bills discounted as on 31.03.2006 (as above)	<u>70,159</u>
	<u>1,68,256</u>

Journal Entries

		Rs.	Rs.
Rebate on bills discounted A/c	Dr.	68,259	
To Discount on bills A/c			68,259
<u>(Transfer of unexpired discount on 31.03.2005)</u>			
Discount on bills A/c	Dr.	70,159	
To Rebate on bills discounted			70,159
<u>(Unexpired discount on 31.03.2006 taken into account)</u>			
Discount on Bills A/c	Dr.	1,68,256	
To P & L A/c			1,68,256
<u>(Discount earned in the year, transferred to P&L A/c)</u>			

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Question 5

Mr. Ashok keeps his books in Single Entry system. From the following information, prepare Trading and Profit & Loss Account for the year ended 31st March, 2006 and the Balance Sheet as on that date:

Assets and Liabilities	31.3.2005 (Rs.)	31.3.2006 (Rs.)
Sundry Creditors	30,000	25,000
Outstanding expenses	1,000	500
Fixed Assets	23,000	22,000
Stock	16,000	22,500
Cash in Hand and at Bank	14,000	16,000
Sundry Debtors	?	36,000

Following further details are available for the Current year:

	Rs.		Rs.
Total receipts from debtors*	1,30,000	Cash purchases	2,000
Returns inward	3,000	Fixed Assets purchased and paid by cheque	1,000
Bad Debts	1,000	Drawings by cheques	6,500
Total Sales	1,50,000	Deposited into the bank	10,000
Discount received	1,500	Withdrawn from bank	18,500
Return outwards	1,000	Cash in hand at the end	2,500
Capital introduced		Paid to creditors by cheques	1,20,000
(paid into Bank)	15,000	Expenses paid	20,000
Cheques received from Debtors	1,25,000		

(16 Marks)

Answer

**Trading and Profit and Loss Account
for the year ended on 31st March, 2006**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening Stock	16,000	By Sales:	
To Purchases:		Cash	

*The words given as "Cash receivable from debtors" in the question paper have been replaced by "Total receipts from debtors" to draw the final accounts.

				(W.N.1)	6,500	
	Cash	2,000		Credit	<u>1,43,500</u>	
	Credit (W.N.3)	<u>1,17,500</u>			1,50,000	
		1,19,500		Less:Returns	<u>3,000</u>	1,47,000
	Less: Returns	<u>1,000</u>	1,18,500	By Stock		22,500
To	Gross Profit c/d		<u>35,000</u>			
			<u>1,69,500</u>			<u>1,69,500</u>
To	Expenses	20,000				
	Add: O/s at the end	<u>500</u>		By Gross profit b/d		35,000
		20,500		By Discount received		1,500
	Less: O/s at the beginning	<u>1,000</u>	19,500			
To	Bad debts		1,000			
To	Depreciation		2,000			
To	Net Profit		<u>14,000</u>			
			<u>36,500</u>			<u>36,500</u>

Balance Sheet
as on 31st March, 2006

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Capital (W.N.5)	48,500	Fixed Assets	23,000
Add:Additional Capital	15,000	Add: Purchased during the year	1,000
Add: Net Profit	14,000	Less: Depreciation	<u>2,000</u>
Less: Drawings	<u>6,500</u>	Stock	22,500
Creditors	25,000	Cash	2,500
Outstanding Exp.	500	Bank	13,500
		Debtors	<u>36,000</u>
	<u>96,500</u>		<u>96,500</u>

Working Notes:

1.

Cash Account

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Balance b/d	4,500	By Purchases	2,000
To Sales (Bal. Fig.)	6,500	By Bank (contra)	10,000
To Debtors	5,000	By Expenses	20,000

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To	Bank (contra)	<u>18,500</u>	By	Balance c/d	<u>2,500</u>
		<u>34,500</u>			<u>34,500</u>

2. Bank Account

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Balance b/d (Bal. Fig.)	9,500	By Fixed Assets	1,000
To Capital	15,000	By Drawings	6,500
To Cash (contra)	10,000	By Cash (contra)	18,500
To Debtors	1,25,000	By Creditors	1,20,000
	<u> </u>	By Balance c/d	<u>13,500</u>
	<u>1,59,500</u>		<u>1,59,500</u>

3. Creditors Account

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Bank	1,20,000	By Balance b/d	30,000
To Returns	1,000	By Purchase (Bal. Fig.)	1,17,500
To Discount received	1,500		
To Balance c/d	<u>25,000</u>		<u> </u>
	<u>1,47,500</u>		<u>1,47,500</u>

4. Debtors Account

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Balance b/d (Bal. Fig.)	26,500	By Cash	5,000
To Sales	1,43,500	By Bank	1,25,000
		By Bad Debts	1,000
		By Returns	3,000
	<u> </u>	By Balance c/d	<u>36,000</u>
	<u>1,70,000</u>		<u>1,70,000</u>

5. Opening Balance Sheet as on 31.3.2005

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Creditors	30,000	Fixed Assets	23,000

O/s Expenses	1,000	Stock	16,000
Capital (Bal. Fig.)	48,500	Cash	4,500
		Bank (W.N.2)	9,500
	_____	Debtors (W.N.4)	<u>26,500</u>
	<u>79,500</u>		<u>79,500</u>

Question 6

Answer any four of the following:

- What are the costs that are to be included in Research and Development costs as per AS 8.
- The Company reviewed an actuarial valuation for the first time for its Pension Scheme, which revalued a surplus of Rs.12 lacs. It wants to spread the same over the next 2 years by reducing the annual contribution to Rs.4 lacs instead of Rs.10 lacs. The average remaining life of the employees, if estimated to be 6 years, you are required to advise the Company considering the accounting standards 5 and 15.
- X Ltd. entered into an agreement to sell its immovable property included in the Balance Sheet at Rs.10 lacs to another company for Rs.15 lacs. The agreement to sell was concluded on 28th February, 2006 and the sale deed was registered on 1st May, 2006. Comment with reference to AS 4.
- What are the conditions that are to be satisfied for 'Amalgamation in the nature of Merger'?
- Write short note on "Appropriation Act" with reference to Government Accounts.
- Define related party transaction under AS 18. (4x4=16 Marks)

Answer

- According to paras 41 and 43 of AS 26*, "No intangible asset arising from research (or from the research phase of an internal project) should be recognized in the research phase. Expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred.

Examples of research costs are:

- ◆ Costs of activities aimed at obtaining new knowledge;
- ◆ Costs of the search for, evaluation and final selection of, applications of research findings or other knowledge;
- ◆ Costs of the search for alternatives for materials, devices, products, processes, systems or services; and

* AS 8 stands withdrawn w.e.f. 1st April, 2003 i.e. the date from which AS 26 'Intangible Assets' becomes mandatory. Therefore the above answer has been given as per AS 26.

- ◆ Costs of the activities involved in formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes systems or services."

According to paras 45 and 46 of AS 26, "In the development phase of a project, an enterprise can, in some instances, identify an intangible asset and demonstrate that future economic benefits from the asset are probable. This is because the development phase of a project is further advanced than the research phase.

Examples of development activities/costs are:

- ◆ Costs of the design, construction and testing of pre-production or pre-use prototypes and models;
 - ◆ Costs of the design of tools, jigs, moulds and dies involving new technology;
 - ◆ Costs of the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
 - ◆ Costs of the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services."
- (b) According to para 92 of AS 15 (Revised 2005) on "Employee Benefits", any actuarial gains and losses should be recognized immediately in the statement of profit and loss account as income or expense.

In the given case, the amount of surplus from pension scheme of Rs. 12 lacs is an actuarial gain, which should be recognized as income in the profit and loss account of the current year and not to be adjusted from the amount of annual contribution.

The surplus arising due to review of actuarial valuation of pension scheme by a company should be treated as a change in accounting policy and disclosed in accordance with AS 5(Revised).

- (c) According to para 13 of AS 4 "Contingences 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 this case the 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. Agreement to sell was effected before the balance sheet date and the registration was done after the balance sheet date. So the adjustment for the sale of immovable property is necessary in the books of account for the year ended 31st March, 2006.

- (d) As per AS 14 "Accounting for Amalgamations", amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions:
- (i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
 - (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their

nominees) become equity shareholders of the transferee company by virtue of amalgamation.

- (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.
 - (iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
 - (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.
- (e) **Appropriation Act:** After the demand is passed by the legislature, appropriation bill is introduced to provide for the appropriation out of the Consolidated Fund of India or the State or the Union Territory having separate legislature for all moneys required to meet (a) the grants made by the legislature; (b) the expenditure charged on consolidated fund but not exceeding in any case the amount shown in the statement previously laid before the legislature. No money can be withdrawn from the consolidated fund until the appropriation bill is passed. The sum is authorized in the Appropriation Act or intended to cover all the changes including the liability of past years to be paid during a financial year or to be adjusted in accounts of the year. Any unspent balance lapses and is not available for utilisation in the following year.
- (f) According to AS 18, "Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions."

A related party transaction involves a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.

Following are the examples of the related party transactions in respect of which disclosures may be made by a reporting enterprise:

- ◆ Purchases or sales of goods (finished or unfinished);
- ◆ Purchases or sales of fixed assets;
- ◆ Rendering or receiving of services;
- ◆ Agency arrangements;
- ◆ Leasing or hire purchase arrangements;
- ◆ Transfer of research and development;
- ◆ Licence agreements;
- ◆ Finance (including loans and equity contributions in cash or in kind);
- ◆ Guarantees and collateral etc.
- ◆ Management contracts including for deputation of employees.