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

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 Rs.	5:3 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

	A Ltd.	*B. Ltd.*
		(Number of shares)
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 Stock	8,80,000 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 =

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

$$= = \frac{(40.40 - 17.75)}{(400 - 190)} = 22.65/210 = 10.79\% \text{ (approx.)}$$

(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 $\dfrac{\text{Rs. } 60,00,000}{(20,00,000+40,00,000)}$ = Re. 1.00

Adjusted earnings per share for the year 2009 $\dfrac{\text{Rs. } 18,00,000}{(20,00,000+40,00,000)}$ = 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.