PAPER – 5 : ADVANCED ACCOUNTING

QUESTIONS

Partnership Accounts- Sale to a Company

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

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

The arrangement with X Limited Company was as follows:

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

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

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

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

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

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

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

Partnership Accounts – Piecemeal Distribution System

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

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

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

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

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

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

Redemption of Debentures

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

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

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

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

Accounting for Employees Stock Option Plan

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

   Pass Journal Entries giving suitable narrations.

Underwriting of Shares

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

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

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

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

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

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

Buy Back of Securities

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

(Rs. in '000)

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

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

Internal Reconstruction

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

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

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

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

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

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

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

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

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

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

Show:

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

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

(c) New structure of share capital after reorganization;

(d) Working capital of the reorganized Company; and

(e) A proforma balance sheet after reorganization.

Amalgamation of Companies

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

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

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

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

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

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

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

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

Liquidation of Companies

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

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

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

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

Issued and paid up Capital:

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

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

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

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

Financial Statements of Insurance Companies

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

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

Financial Statements of Banking Companies

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

	(Rs. in thousands)
Interest and discount - (Income)	8,860
Interest on public deposits – (Expenditure)	2,720
Operating expenses	2,662
Other incomes	250
Provisions and contingencies (it includes provision in respect of Non-performing Assets (NPAs) and tax provisions)	2,004
Rebate on bills discounted to be provided for as on 31.3.2008	30

Classification of Advances:

Standard Assets	5,000

Sub-standard Assets	1,120
Doubtful Assets – fully unsecured	200
Doubtful assets – fully secured	
Less than 1 year	50
More than 1 year but less than 3 years	300
More than 3 years	300
Loss assets	200

You are required to prepare:

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

(ii) Provision in respect of advances.

Financial Statements of Banking Companies

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

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

Details of bills discounted are as follows:

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

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

Financial Statements of Electricity Companies

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

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

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

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

All workings should form part of your answers.

Departmental Accounts

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

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

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

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

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

Find out the correct departmental profits after charging Managers' commission

Branch Accounts

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

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

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

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

Accounting for Foreign Branches

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

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

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

The following further information is given :

(1) Wages outstanding – $ 1,000.

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

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

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

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

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

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

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

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

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

You are asked to prepare :

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

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

Conceptual Framework for Preparation and Presentation of Financial Statements

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

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

Short Answer based Questions

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

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

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

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

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

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

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

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

Theory Questions based on Accounting Standards

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

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

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

(i) Prior period items.

(ii) Change in accounting estimates.

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

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

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

Practical Problems based on Accounting Standards

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SUGGESTED ANSWERS / HINTS

1. **Realisation Account**

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

Capital Accounts

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

Cash Account

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

Working Notes:

1 Calculation of Purchase consideration:

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

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

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

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

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

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

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

2. Statement of Distribution of Cash

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

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

3. **Journal Entries**

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

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

Working Notes:

(1) Redemption of debentures by issuing preference shares:

	Rs.
Claim of the holders of 4000 debentures @ Rs.104	4,16,000
Number of preference shares to be issued $\left(\frac{Rs.4,16,000}{130}\right)$	3,200
	Rs.
Face value of preference shares @ Rs.100 each	3,20,000
Premium of preference shares @ Rs.30 each	96,000

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

Claim of the holders of 4,800 debentures @ Rs.104	4,99,200
Number of 11% Second Debentures to be issued $\left(\frac{Rs.4,99,200}{Rs.96}\right)$	5,200
	Rs.
Face value of 11% Second Debentures @ Rs.100 each	5,20,000
Discount on issue of debentures @ Rs.4 each	20,800

(3) Redemption of debentures in cash:

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

4. Journal Entries in the Books of ABC Ltd.

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

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

Working Note:

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

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

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

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

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

(b) **Alpha Chemicals Ltd.**

Journal Entries

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

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

Working Notes:

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

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

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

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

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

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

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

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

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

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

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

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

(c) New structure of share capital after reorganisation

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

(d) Working capital of the reorganized company

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

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

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

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

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

8.

Books of A Limited

Realisation Account

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

Bank Account

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

10% Debentures Account

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

Loan from A Account

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

Misc. Expenses Account

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

General Reserve Account

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

B Ltd. Account

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

Equity Shares in B Ltd. Account

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

Equity Shareholders Account

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

B Ltd.

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

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

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

Working Notes:

1. Valuation of Goodwill

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

2. Net Assets for purchase consideration

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

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

3. Unrealised Profit on Stock

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

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

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

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

Working Note:

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

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

Notes:

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

(b) Liquidators' Final Statement of Account

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

Working Note:

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

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

Number of equivalent equity shares:

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

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

= 7,000 shares of Rs. 50 each

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

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

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

= Rs. 30 per share

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

10. **FORM B - RA**

Name of the Insurer:

Registration No. and Date of Registration with the IRDA:

Fire Insurance Revenue Account

for the year ended 31st March, 2008

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

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

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

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

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

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

Working Note:

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

11. Well-to-do Bank Ltd.

Profit and Loss Account

for the year ended 31st March, 2008

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

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

12. Statement showing rebate on bills discounted

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

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

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

In the books of X Bank Ltd.

Journal Entries

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

Credit to Profit and Loss A/c will be as follows:

10,56,650 + 2,21,600 – 4,25,254 = Rs.8,52,996

13.

(i) Calculation of Capital Base

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

(ii) Calculation of Reasonable Return

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

(iii) Disposal of Surplus

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

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

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

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

14. Calculation of correct Profit

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

Working Note :

Stock lying with

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

15. Trading and Profit and Loss A/c

For the year ended 31st March 2009

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

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

Working Notes:

(1) Calculation of closing stock of head office:

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

(2) Calculation of closing stock of branch:

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

(3) Calculation of unrealized profit in branch stock:

Branch stock Rs.99,000

Profit included 80% of cost

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

16. (a) In the books of Indian Company

Washington Branch Trial Balnce (in Rupees)

as on 30th September, 2008

(Rs. '000)

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

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

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

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

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

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

Balance Sheet of Washington Branch

as on 30th September, 2008

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   (a) Transactions and events reported are faithfully represented.

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

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

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

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

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

18. (a)

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

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

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

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

The following journal entry must be made by the branch:

Goods in transit A/c	Dr.	50,000	
To Head office A/c			50,000

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

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

(e)

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

(f)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20. (a) Computation of Unearned Finance Income

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

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

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

= Rs. 27,00,000

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

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

Unearned Finance Income = Gross investment – PV of MLP

= Rs. 27,00,000 – Rs. 17,75,540

= Rs. 9,24,460

Journal Entries in the books of B Ltd.

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

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

At the end of the first year of lease

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

Working Note:

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

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

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

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

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

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

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

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

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

22. (a) According to para 8 of AS 4 (Revised 1995), the unexpected increase in sale price of petrol by the government after the balance sheet date cannot be regarded as an event occurring after the Balance Sheet date, which requires an adjustment at the Balance Sheet date, since it does not represent a condition present at the balance sheet date. The revenue should be recognized only in the subsequent year with proper disclosures. The retrospective increase in the petrol price should not be considered as a prior period item, as per AS 5, because there was no error in the preparation of previous period's financial statements.

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

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

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

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

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

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

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

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

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

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

= Rs. 56,000

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

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

= Rs. 72,000

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

25. (i) Computation of average accumulated expenses

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

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

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

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

(iii) Interest on average accumulated expenses

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

(iv) Total expenses to be capitalized for building

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

* (Rs. 6,22,500 – Rs. 1,00,000)

(v) **Journal Entry**

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