PAPER – 1 : ADVANCED ACCOUNTING

Answer all questions

Wherever applicable appropriate, suitable assumptions should be made by the candidate.

Working notes should form part of the answer.

Question 1

A, B and C are partners of the firm ABC & Co., sharing profits and losses in the ratio of 5:3:2. Following is the Balance Sheet of the firm as at 31.3.2008:

Balance Sheet as at 31.3.2008

Liabilities	Rs.	Assets	Rs.
Partners' capital accounts:		Goodwill	1,00,000
A	4,50,000	Building	10,50,000
B	1,30,000	Machinery	6,50,000
C	1,70,000	Furniture	2,15,000
Investment fluctuation reserve	1,00,000	Investments (market value Rs.75,000)	60,000
Contingency reserve	75,000	Stock	6,50,000
Long-term loan	15,00,000	Sundry debtors	6,95,000
Bank overdraft	2,20,000	Advertisement suspense	25,000
Sundry creditors	8,00,000		
	34,45,000		34,45,000

It was decided that B would retire from the partnership on 1.4.2008 and D would be admitted as a partner on the same date. Following adjustments are agreed amongst the partners for the retirement/admission:

(i) Goodwill is to be valued at Rs.5,00,000, but the same will not appear as an asset in the books of the firm.

(ii) Building and machinery are to be revalued at Rs.10,00,000 and Rs.5,20,000 respectively.

(iii) Investments are to be taken over by B at the market value.

(iv) Provision for doubtful debts to be maintained at 20% on sundry debtors.

(v) The capital of the reconstituted firm will be Rs.10,00,000 to be contributed by the partners A, C and D in their new profit sharing ratio of 2 :2 : 1.

(vi) Surplus funds if any will be used to pay the bank overdraft.

(vii) Amount due to retiring partner B will be transferred to his loan account.

Prepare:

(i) Revaluation Account;

(ii) Capital Accounts of the partners; and

(iii) Balance Sheet of the firm after reconstitution. (20 Marks)

Answer

(i) Revaluation Account

		Rs.				Rs.
To	Building	50,000	By	Investments		15,000
To	Machinery	1,30,000	By	Partners' capital A/cs (Loss on revaluation)		
To	Provision for doubtful debts	1,39,000		A	1,52,000	
				B	91,200	
				C	60,800	3,04,000
		3,19,000				3,19,000

(ii) Partners' Capital Accounts

		A	B	C	D			A	B	C	D
		Rs.	Rs.	Rs.	Rs.			Rs.	Rs.	Rs.	Rs.
To	Revaluation A/c	1,52,000	91,200	60,800	-	By	Balance b/d	4,50,000	1,30,000	1,70,000	-
To	Goodwill (W.N.2)	50,000	30,000	20,000	-	By	Contingency Reserve	37,500	22,500	15,000	-
To	A and B (W.N.3)	-	-	1,00,000	1,00,000	By	Investment fluctuation Reserve	50,000	30,000	20,000	-
To	Investments	-	75,000	-	-						
To	Advertisement suspense	12,500	7,500	5,000	-	By	C and D (W.N.3)	50,000	1,50,000	-	-
To	B's Loan A/c (Bal. fig.)	-	1,28,800	-	-	By	Bank (Bal.fig.)	27,000	-	3,80,800	3,00,000
To	Balance c/d (W.N.4)	4,00,000	-	4,00,000	2,00,000						
		6,14,500	3,32,500	5,85,800	3,00,000			6,14,500	3,32,500	5,85,800	3,00,000

(iii) Balance Sheet as at 01.04.2008

(After retirement of B and admission of D)

Liabilities	Rs.	Assets		Rs.
Partners' capital accounts (W.N.4)		Building		10,00,000
A	4,00,000	Machinery		5,20,000
C	4,00,000	Furniture		2,15,000
D	2,00,000	Stock		6,50,000
Long term loan	15,00,000	Debtors	6,95,000	
B's loan	1,28,800	Less: Provision for doubtful debts	1,39,000	5,56,000
Sundry creditors	8,00,000	Cash at bank (W.N.1)		4,87,800
	34,28,800			34,28,800

Working Notes:

1. Bank Account

		Rs.				Rs.
To	A's capital A/c	27,000	By	Balance (Overdraft)	b/d	2,20,000
To	C's capital A/c	3,80,800	By	Balance (Bal. fig.)	c/d	4,87,800
To	D's capital A/c	3,00,000				
		7,07,800				7,07,800

2. Goodwill, already shown in the Balance Sheet of Rs. 1,00,000, is firstly written off and then an adjusting entry is passed for revalued goodwill of Rs. 5,00,000 in sacrificing and gaining ratio of partners. This treatment is given based on the para 36 of AS 10, which states that goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it.

3. Calculation of sacrificing and gaining ratio

Partners	New share	Old share		Share Sacrificed	Share Gained
A	$\frac{2}{5}$	$\frac{5}{10}$	$\frac{2}{5}-\frac{5}{10}=$	$\frac{1}{10}$	
B		$\frac{3}{10}$		$\frac{3}{10}$	

C	$\frac{2}{5}$	$\frac{2}{10}$	$\frac{2}{5}-\frac{2}{10}$	$\frac{1}{5}$
D	$\frac{1}{5}$			$\frac{1}{5}$

Adjusting Entry

		Rs.	Rs.
C's Capital A/c	Dr.	1,00,000	
D's Capital A/c	Dr.	1,00,000	
To A's Capital A/c			50,000
To B's Capital A/c			1,50,000

4. Capitals of A, C and D as per new ratio

		Rs.
Total Capital of the firm after admission		10,00,000
A's share =	$10,00,000 \times \frac{2}{5}$	4,00,000
C's share =	$10,00,000 \times \frac{2}{5}$	4,00,000
D's share =	$10,00,000 \times \frac{1}{5}$	2,00,000

Question 2

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. (16 Marks)

Answer

(i) Statement showing calculation of purchase consideration

	(Number of shares)	
	A Ltd.	B. Ltd.
Existing shares	1,00,000	60,000
Less:Shares held by A Ltd.		5,000
	1,00,000	55,000
Value per share	Rs.18	Rs.20
Total value	Rs.18,00,000	Rs.11,00,000
No. of shares to be issued at a premium of Rs.6 per share i.e. Rs.16 (10+6)	1,12,500 shares	68,750 shares

	Rs.	Rs.
Share capital	11,25,000	6,87,500
Add: Securities premium	6,75,000	4,12,500
Total purchase consideration	18,00,000	11,00,000

(ii) Journal Entries in the books of A Ltd.

		Rs.	Rs.
Realisation A/c	Dr.	24,40,000	
To Land & building A/c			9,00,000
To Plant & machinery A/c			5,00,000
To Stock A/c			5,20,000
To Sundry debtors A/c			4,10,000
To Investments A/c			80,000
To Bank A/c			30,000
(Being assets transferred to Realisation A/c)			
Profit and loss A/c	Dr.	60,000	
To Creditors A/c			60,000
(Being contingent liability treated as real liability)			
10% Debentures A/c	Dr.	5,00,000	
Creditors A/c	Dr.	3,20,000	
To Realisation A/c			8,20,000
(Being transfer of liabilities to Realisation A/c)			
AB Ltd.	Dr.	18,00,000	
To Realisation A/c			18,00,000
(Being the purchase consideration accounted for)			
Share in AB Ltd. A/c	Dr.	18,00,000	
To AB Ltd.			18,00,000
(Being purchase consideration received)			
Share Capital A/c	Dr.	10,00,000	
Securities premium A/c	Dr.	2,00,000	
General Reserve A/c	Dr.	3,00,000	
Profit and Loss A/c	Dr.	1,20,000	

Realisation A/c	Dr.	1,80,000	
To Shareholders A/c			18,00,000
(Being transfer of balances to shareholders' account)			
Shareholders A/c	Dr.	18,00,000	
To Shares in AB Ltd.			18,00,000
(Being closure of shareholders a/c)			

(iii) Journal Entries in the Books of AB Ltd.

		Rs.	Rs.
Land & building A/c	Dr.	9,00,000	
Plant & machinery A/c	Dr.	5,00,000	
Stock A/c	Dr.	5,20,000	
Debtors A/c	Dr.	4,10,000	
Bank A/c	Dr.	30,000	
Goodwill A/c	Dr.	2,60,000	
To 10% Debentures A/c			5,00,000
To Sundry creditors A/c			3,20,000
To Liquidator of A Ltd. A/c			18,00,000
(Being the purchase consideration of A Ltd. accounted for)			
Land & building A/c	Dr.	4,50,000	
Plant & machinery A/c	Dr.	3,80,000	
Stock A/c	Dr.	3,50,000	
Debtors A/c	Dr.	2,60,000	
Bank A/c	Dr.	40,000	
Goodwill A/c	Dr.	90,000	
To Secured loan A/c			3,00,000
To Sundry creditors A/c			1,70,000
To Liquidator of B Ltd. A/c			11,00,000
(Being purchase consideration of B Ltd. accounted for)			
Liquidator of A Ltd. A/c	Dr.	18,00,000	
To Equity share capital A/c			11,25,000
To Securities premium A/c			6,75,000
(Being shares issued to Liquidator of A Ltd.)			

Liquidator of B Ltd. A/c	Dr.	11,00,000	
To Equity share capital A/c			6,87,500
To Securities premium A/c			4,12,500
(Being shares issued to Liquidator of B Ltd.)			

(iv) Balance Sheet of AB Ltd.

(After amalgamation of A Ltd. & B Ltd.)

Liabilities	Rs.	Assets	Rs.
Share capital:		Goodwill (2,60,000 + 90,000)	3,50,000
1,81,250 Equity shares of Rs.10 each fully paid up	18,12,500	Land & building	13,50,000
(above shares have been issued for consideration other than cash)		Plant & machinery 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

Question 3

(a) On 11.11.2007 the premises of Rocky Ltd. was destroyed by fire. The following information is made available:

	Rs.
Stock as on 1.4.2006	3,75,000
Purchases from 1.4.2006 to 31.3.2007	5,20,000
Sales from 1.4.2006 to 31.3.2007	8,55,000
Stock as on 31.3.2007	2,00,000
Purchases from 1.4.2007 to 11.11.2007	3,41,000
Sales from 1.4.2007 to 11.11.2007	4,35,500

In valuing the stock on 31.3.2007, due to damage 50% of the value of the stock which originally cost Rs.22,000 was written off.

In June, 2007 about 50% of this stock was sold for Rs.5,500 and the balance of obsolete stock is expected to realize the same price (i.e., 50% of the original cost).

The gross profit ratio is to be assumed as uniform in respect of other sales. Stock salvaged from fire amounts to Rs.11,500.

Compute the value of stock lost in fire.

(b) From the following prepare General Ledger Adjustment account in Debtors Ledger and Debtors Ledger Adjustment account in General Ledger:

	Rs.
Balance as on 1.4.2008	
Debit balances in Debtors ledger	2,46,200
Credit balances in Debtors ledger	3,400
Transactions during the month of April, 2008	
Credit sales	9,74,900
Sales return	21,700
Cash received from debtors	8,62,100
Discount allowed to debtors	39,200
Bills receivable received from debtors	51,200
Bills receivable dishonoured	3,500
Bills payable given to suppliers	27,000
Credit balance in Debtors ledger on 30.4.2008	5,200

(8+8=16 Marks)

Answer

(a) In the books of Rocky Ltd.

Trading Account for the year ended 31.3.2007

		Rs.			Rs.
To	Opening stock	3,75,000	By	Sales	8,55,000
To	Purchases	5,20,000	By	Closing stock (W.N.)	2,11,000
To	Gross profit (Bal. fig.)	1,71,000			
		10,66,000			10,66,000

Gross profit ratio of 2006-2007 $= \frac{\text{Gross profit}}{\text{Sales}} \times 100$

$= \frac{\text{Rs.1,71,000}}{\text{Rs.8,55,000}} \times 100$

$=$ 20%

Memorandum Trading Account

for the period 1.4.2007 to 11.11.2007

		Normal	Abnormal			Normal	Abnormal
		Rs.	Rs.			Rs.	Rs.
To	Opening stock	1,89,000	11,000	By	Sales	4,30,000	5,500
To	Purchases	3,41,000		By	Closing stock	1,86,000	5,500
To	Gross profit @ 20%	86,000					
		6,16,000	11,000			6,16,000	11,000

Computation of stock lost in fire:

Closing stock	=	Normal stock + Abnormal stock
	=	Rs. 1,86,000 +Rs. 5500
	=	Rs. 1,91,500
Less:Stock salvaged		Rs. 11,500
Stock lost in fire		Rs.1,80,000

Working Note:

Closing stock	=	Closing stock as given + Amount written off
	=	Rs.2,00,000 +Rs. 11,000
	=	Rs.2,11,000

(b) **In Debtors Ledger**

General Ledger Adjustment Account

Date		Particulars	Rs.	Date		Particulars	Rs.
1.4.2008	To	Balance b/d	3,400	1.4.2008	By	Balance b/d	2,46,200
1.4.2008 to 30.4.2008	To	Debtors ledger adjustment A/c:		1.4.2008 to 30.4.2008	By	Debtors ledger adjustment A/c:	
		Sales return	21,700			Sales	9,74,900
		Cash received	8,62,100			B/R dishonoured	3,500
		Discount allowed	39,200	30.4.2008	By	Balance c/d	5,200

		B/R received	51,200				
30.4.2008	To	Balance c/d (Bal. fig.)	2,52,200				
			12,29,800				12,29,800

In General Ledger

Debtors Ledger Adjustment A/c

Date		Particulars	Rs.	Date		Particulars	Rs.
1.4.08	To	Balance b/d	2,46,200	1.4.08	By	Balance b/d	3,400
1.4.2008 to 30.4.08	To	General ledger adjustment A/c:		1.4.2008 to 30.4.08	By	General ledger adjustment A/c:	
		Sales	9,74,900			Sales return	21,700
		B/R dishonoured	3,500			Cash received	8,62,100
30.4.08	To	Balance c/d	5,200	30.4.08		Discount allowed	39,200
						B/R received	51,200
					By	Balance c/d (Bal.fig.)	2,52,200
			12,29,800				12,29,800

Question 4

Following is the Receipts and Payments Account of Mayur Club for the year ended 31st March, 2008:

Receipts	Rs.	Payments	Rs.
Opening balance (1.4.2007)		Payments:	
Cash on hand	39,100	Sports materials	3,04,500
Cash at bank	50,000	Salaries	3,15,000
Receipts:		Equipment purchased on 1.10.2007	60,000
Subscriptions		Bank fixed deposits on 31.3.2008	1,50,000
For the year 2006-07	18,000	Rent	1,48,500
For the year 2007-08	9,63,000	Ground maintenance	22,120

For the year 2008-09	4,500	Insurance	38,400
Interest on bank		Stationery	3,450
Fixed deposits @10%	45,000	Sundry expenses	5,880
		Closing balance as on 31.3.2008	
		Cash on hand	31,750
		Cash at bank	40,000
	11,19,600		11,19,600

Following additional information is provided to you:

(i) The club has 220 members. The annual subscription is Rs.4,500 per member.

(ii) Depreciation to be provided on furniture at 10% p.a. and on sports equipment at 15% p.a.

(iii) On 31st March, 2008, stock of sports material in hand (after members use during the year) is valued at Rs.78,000 and stock of stationery at Rs.3,150. Rent for 1 month is outstanding. Unexpired insurance amounts to Rs.9,600.

(iv) On 31st March, 2007 the club had the following assets:

Furniture	Rs.	2,70,000
Sports equipment	Rs.	1,80,000
Bank fixed deposit	Rs.	4,50,000
Stock of stationery	Rs.	1,500
Stock of sports material	Rs.	73,500
Unexpired insurance	Rs.	8,400
Subscription in arrear	Rs.	22,500

Note:There was no liability on 31.3.2007.

You are required to prepare:

(i) Income and Expenditure Account; and

(ii) Balance Sheet as at 31st March, 2008.

(16 Marks)

Answer

Mayur Club

(i) Income and Expenditure Account for the year ended 31.3.2008

	Expenditure		Rs.		Income	Rs.
To	Sports Material used			By	Subscription (W.N.2)	9,90,000
	Opening stock	73,500		By	Interest on fixed	

				deposit	45,000
	Add: Purchases	3,04,500			
		3,78,000			
	Less: Closing stock	78,000	3,00,000		
To	Salaries		3,15,000		
To	Rent	1,48,500			
	Add: Outstanding (W.N.6)	13,500	1,62,000		
To	Ground maintenance		22,120		
To	Insurance	38,400			
	Less: Unexpired on 31.3.08	9,600			
		28,800			
	Add: Unexpired on 1.4.07	8,400	37,200		
To	Stationery used				
	Opening stock	1,500			
	Add: Purchases	3,450			
		4,950			
	Less: Closing Stock	3,150	1,800		
To	Sundry expenses		5,880		
To	Depreciation on				
	Furniture	27,000			
	Sports equipment	31,500	58,500		
To	Excess of income over expenditure		1,32,500		
			10,35,000		10,35,000

Balance Sheet as at 31st March, 2008

Liabilities		Rs.	Assets		Rs.
Capital fund:			Equipments: Opening balance	1,80,000	
Opening balance (W.N.1)	10,95,000		Add: Addition	60,000	

Add: Excess of				2,40,000	
income over expenditure	1,32,500	12,27,500	Less: Depreciation (W.N.5)	31,500	2,08,500
Rent outstanding (W.N.6)		13,500	Furniture:	2,70,000	
Subscription received in advance for 2008-09		4,500	Less: Depreciation	27,000	2,43,000
			Sports material		78,000
			Stock of stationery		3,150
			Fixed deposit in bank		
			(4,50,000 + 1,50,000)		6,00,000
			Subscription in arrears:		
			For 2006-07 (W.N.3)	4,500	
			For 2007-08 (W.N.4)	27,000	31,500
			Prepaid insurance (unexpired)		9,600
			Cash on hand		31,750
			Cash at bank		40,000
		12,45,500			12,45,500

Working Notes:

1. Balance Sheet as at 31.3.2007

Liabilities	Rs.	Assets	Rs.
Capital fund (Bal. fig.)	10,95,000	Sports equipment	1,80,000
		Furniture	2,70,000
		Sports materials	73,500
		Stock of stationery	1,500
		Fixed deposits in bank	4,50,000
		Subscription in arrears	22,500
		Prepaid insurance (unexpired)	8,400
		Cash on hand	39,100
		Cash at bank	50,000
	10,95,000		10,95,000

2.	**Income on account of subscription**	Rs.
	220 members @ Rs.4,500 each	9,90,000
3.	**Subscription still in arrears of 2006-2007**	
	Opening balance of subscription in arrears (as on 1.4.2007)	22,500
	Less:Arrears subscription of 2006-07 received during the year 2007-08	18,000
	Subscription of 2006-07 still in arrears as on 31.3.2008	4,500
4.	**Subscription in arrear on 31.3.2008**	
	Subscription for the year 2007-08	9,90,000
	Less: Subscription received for the year	9,63,000
	Subscription in arrears for 2007-08	27,000
5.	**Depreciation on sports equipment**	
	On Rs.1,80,000 @ 15% for full year	27,000
	On Rs.60,000 @ 15% for 6 months	4,500
	Total	31,500
6.	**Outstanding rent of 2007-2008**	
	Outstanding rent $= \frac{\text{Rs.1,48,500}}{\text{11 months}} \times 1 \text{ month}$	13,500

Question 5

Answer any **eight** out of the following:

(i) Mr. A advanced Rs.30,000 to Mr. B on 1.4.2008. The amount is repayable in 6 equal monthly instalments commencing from 1.5.2008. Compute the average due date for the loan.

(ii) A company sold 25% of the goods on cash basis and the balance on credit basis. Debtors are allowed 2 months credit and their balance as on 31.3.2008 is Rs.1,40,000. Assume that the sale is uniform through out the year. Calculate the total sales of the company for the year ended 31.3.2008.

(iii) In a concern, the opening provision for doubtful debts is Rs.51,000. During the year a sum of Rs.10,000 was written off as bad debt. The closing balance of sundry debtors amounts to Rs.6,30,000. It was decided that 10% of the debtors is to be maintained as provision. Calculate the closing balance towards provision for doubtful debts and pass journal entry for giving effect to the provision maintained.

(iv) How would you record a non-monetary grant received from the Government as per AS 12?

(v) What is the accounting entry to be passed as per AS 10 for the following situations:

(a) Increase in value of fixed asset by Rs.50,00,000 on account of revaluation.

(b) Decrease in the value of fixed asset by Rs.30,00,000 on account of revaluation.

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

(vii) An industry borrowed Rs.40,00,000 for purchase of machinery on 1.6.2007. Interest on loan is 9% per annum. The machinery was put to use from 1.1.2008. Pass journal entry for the year ended 31.3.2008 to record the borrowing cost of loan as per AS 16.

(viii) What is Account current?

(ix) 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?

(x) 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?

(8 x 2 = 16 Marks)

Answer

(i) Average due date = $\frac{\text{Date of loan} + \text{Sum of months from the date of lending to repayment}}{\text{No. of instalments}}$

$= 1.4.2008 + \frac{(1+2+3+4+5+6)}{6}$

= 1.4.2008 + 3.5 months

= 16th July 2008

(ii) Debtors as on 31.3.2008 = Rs.1,40,000

Credit period allowed = 2 months

i.e. Debtors as on 31.3.2008 is standing for credit sales of February and March 2008

Credit sales per month	=	Rs.1,40,000/2
	=	Rs.70,000
Credit sales for the year 2007-2008	=	Rs.70,000 × 12
	=	Rs.8,40,000
Add: Cash sales $8{,}40{,}000 \times \frac{25}{75}$	=	Rs.2,80,000
Total sales of the company for the year ended 31.3.2008		Rs.11,20,000

(iii)

Closing balance of Sundry Debtors	=	Rs.6,30,000
Closing provision for doubtful debts to be maintained @ 10%	=	Rs.63,000
Less:Opening Provision for doubtful debts	=	Rs.51,000
Additional provision to be maintained	=	Rs.12,000

Journal Entry

Profit and Loss A/c	Dr.	12,000	
To Provision for doubtful debts			12,000
(Being additional provision on doubtful debts maintained @ 10%)			

(iv) According to para 7.1 of AS 12 'Accounting for Government Grants', Government grants may take the form of non-monetary assets such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary grants given free of cost are recorded at a nominal value.

(v) **Journal entries***

			Rs.	Rs.
(a)	Fixed asset A/c	Dr.	50,00,000	
	To Revaluation reserve A/c			50,00,000
	(Being the increase in value of fixed asset due to upward revaluation)			

* The journal entries given are on the assumption that the revaluation is done for the first time, for that particular fixed asset.

(b)	Profit and loss A/c	Dr.	30,00,000	
	To Fixed asset A/c			30,00,000
	(Being the decrease in net book value of fixed asset due to downward revaluation)			

(vi) 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.

(vii)

		Rs.
Interest upto 31.3.2008 (40,00,000 × 9% × $\frac{10}{12}$ months)	=	3,00,000
Less:Interest relating to pre-operative period 3,00,000 × $\frac{7}{10}$	=	2,10,000
Amount to be charged to P&L A/c	=	90,000
Pre-operative interest to be capitalized	=	2,10,000

Journal Entry

Machinery A/c	Dr.	2,10,000	
To Loan A/c			2,10,000
(Being interest on loan for pre-operative period capitalized)			
Interest on loan A/c	Dr.	90,000	
To Loan A/c			90,000
(Being the interest on loan for the post-operative period)			
Profit and Loss A/c	Dr.	90,000	
To Interest on loan A/c			90,000
(Being interest on loan transferred to P&L A/c)			

(viii) Account current is a running statement of transactions between parties, maintained in the form of a ledger account, for a given period of time and includes interest allowed or charged on various items. It is prepared when transactions regularly take place between two parties. An account current has two parties – one who renders the account and the other to whom the account is rendered.

(ix)

		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

(x)

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

Question 6

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

(a) When can an item qualify to be a prior period item as per AS 5?

(b) Ram & Co. acquired a motor lorry on hire-purchase basis. It has to make cash down payment of Rs.1,00,000 at the beginning. The payments to be made subsequently are Rs.2,63,000; Rs.1,85,000 and Rs.1,14,000 at the end of first year, second year and third year respectively. Interest charged is @ 14% per annum. Calculate the cost price of motor lorry and interest paid in each instalment.

(c) Explain Garner v/s Murray rule applicable in the case of partnership firms. State, when is this rule not applicable.

(d) Albert Ltd. issued 50,00,000 Equity shares of Rs.10 each. The whole issue was underwritten by A, B and C as below:

A	15,00,000 shares
B	25,00,000 shares
C	10,00,000 shares

Applications were received for 48,50,000 shares of which the marked applications were as follows:

A	12,00,000 shares
B	25,00,000 shares
C	8,50,000 shares

Calculate the number of shares to be taken up by the underwriters.

(e) Explain the factors to be considered before selecting the pre-packaged accounting software.

(f) What are the items that are to be excluded in determination of the cost of inventories as per AS-2? (4 x 4 =16 Marks)

Answer

(a) According to para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', prior period items refers to those income or expenses, which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period e.g., arrears payable to workers in current period as a result of revision of wages with retrospective effect.

(b) Calculation of cost price and total interest to be paid on motor lorry

No. of instalment	Amount due at the time of instalment	Interest on cumulative instalment	Cash Price in each instalment
III	1,14,000	$1,14,000 \times \frac{14}{114} = 14,000$	1,00,000
II	1,85,000	$2,85,000^{*} \times \frac{14}{114} = 35,000$	1,50,000
I	2,63,000	$5,13,000^{**} \times \frac{14}{114} = 63,000$	2,00,000
Cash down payment			1,00,000
Total		1,12,000	5,50,000

* 1,00,000 + 1,85,000 = 2,85,000.

**2,63,000 + 1,50,000 + 1,00,000 = 5,13,000.

(c) In the case of dissolution of a partnership firm due to insolvency, Garner vs Murray rule is applicable at the time of any partner becoming insolvent. It requires -

1. That the solvent partners should bear the loss arising due to insolvency of a partner in their capital ratio after making adjustments for past accumulated reserves, profits or losses, drawings, interest on drawings/capitals, remuneration to partners etc., to the date of dissolution but before making adjustment for profit or loss on realization in case of fluctuating capital. In case of fixed capital no such adjustments are required.

2. That the solvent partners should bring in cash equal to their respective shares of the loss on realization.

This rule is not applicable when:

1. Only one partner is solvent.
2. All partners are insolvent.
3. The partnership deed provides for a specific method to be followed in case of insolvency of a partner, then the conditions given in the deed would prevail.

(d) **(Number of shares)**

	A	B	C
Gross Liability (3:5:2)	15,00,000	25,00,000	10,00,000
Less:Marked applications	12,00,000	25,00,000	8,50,000
	3,00,000	Nil	1,50,000
Less:Unmarked applications* in 3:5:2 ratio	90,000	1,50,000	60,000
	2,10,000	(1,50,000)	90,000
Less: Surplus of B allocated to A & C in 3:2 ratio	90,000	1,50,000	60,000
Number of shares to be taken up by the underwriters	1,20,000	Nil	30,000

(e) There are many accounting softwares available in the market. To choose the accounting software appropriate to the need of the organization is a difficult task, some of the criteria for selection could be the following:

1. **Fulfillment of business requirements**: Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
2. **Completeness of reports:** Some packages might provide extra reports or the reports match the requirements more than the others.
3. **Ease of Use:** Some packages could be very detailed and cumbersome compare to the others.
4. **Cost:** The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
5. **Reputation of vendor:** Vendor support is essential for any software. A stable vendor with good reputation and track records will always be preferred.

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*48,50,000 shares – (12,00,000 + 25,00,000 + 8,50,000) =3,00,000 shares.

6. **Regular updates**: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

(f) Items that are to be excluded in determination of the cost of inventories as per para 13 of AS 2 on 'Valuation of Inventories' are:

(i) Abnormal amounts of wasted materials, labour or other production costs.

(ii) Storage costs unless those costs are necessary in the production process prior to a further production stage.

(iii) Administrative overheads that do not contribute to bringing the inventories to their present location and condition; and

(iv) Selling and distribution costs.