PAPER – 5 : ADVANCED ACCOUNTING

All *questions are compulsory*

Working notes should form part of the answer.

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

Question 1

Answer the following questions:

(i) Goods worth Rs. 5,00,000 were destroyed due to flood in September, 2006. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim in the financial year 2006-07.

In March, 2008, the claim was passed and the company received a payment of Rs.3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2008.

(ii) Briefly indicate the items which are included in the expressions "Borrowing Cost" as per AS 16.

(iii) Sterling Ltd. purchased a plant for US $ 20,000 on 31st December, 07 payable after 4 months. The company entered into a forward contract for 4 months @ Rs. 48.85 per dollar. On 31st December, 07, the exchange rate was Rs. 47.50 per dollar.

How will you recognize the profit or loss on forward contract in the books of Sterling Limited for the year ended 31st March, 2008.

(iv) A company created a provision of Rs. 75,000 for staff welfare while preparing the financial statements for the year 2007-08. On 31st March, in a meeting with staff welfare association, it was decided to increase the amount of provision for staff welfare to Rs. 1,00,000. The accounts were approved by Board of Directors on 15th April, 2008.

Explain the treatment of such revision in financial statements for the year ended 31st March, 2008.

(v) Explain "Employee's stock option plan".

(vi) A company entered into an agreement to sell its immovable property to another company for 35 lakhs. The property was shown in the Balance Sheet at Rs.7 lakhs. The agreement to sell was concluded on 15th February, 2008 and sale deed was registered on 30th April, 2008. The financial statements for the year 2007-08 were approved by the board on 12th May,2008.

You are required to state, how this transaction would be dealt with in the financial statements for the year ended 31st March, 2008.

(vii) *A Ltd. entered into a binding contract with C Ltd. to buy a machine for Rs. 1,00,000. The machine is to be delivered on 15th February, 2009. On 1st January, 2009, A Ltd. changed its process of production. The new process will not require the machine ordered and it shall have to be scrapped after delivery. The expected scrap value of the machine is nil.*

Explain how A Ltd. should recognise the entire transaction in the books of account for the year ended 31st March, 2009.

(viii) *Goods are transferred from Department P to Department Q at a price 50% above cost.*

If closing stock of Department Q is Rs. 27,000, compute the amount of stock reserve.

(ix) *X Ltd. received a revenue grant of Rs.10 crores during 2006-07 from Government for welfare activities to be carried on by the company for its employees. The grant prescribed the conditions for utilization.*

However during the year 2008-09, it was found that the prescribed conditions were not fulfilled and the grant should be refunded to the Government.

State how this matter will have to be dealt with in the financial statements of X Ltd. for the year ended 2008-09.

(x) *"Conversion of debt into equity is a non-cash transaction." Comment. (10 × 2 = 20 Marks)*

Answer

(i) As per the provisions, of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", prior period items are income or expenses, which arise in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss.

In the given situation, it is clearly a case of error in preparation of financial statements for the financial year 2006-07. Hence claim received in the financial year 2007-08 is a prior period item and should be separately disclosed in the statement of profit and loss for the year ended 31st March, 2008.

(ii) Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds. Borrowing cost may include:

(a) Interest and commitment charges on bank borrowings and other short term and long term borrowings.

(b) Amortisation of discounts or premiums relating to borrowings.

(c) Amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

(d) Finance charges in respect of assets required under finance leases or under other similar arrangements; and

(e) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

(iii) Calculation of profit or loss to be recognised in the books of Sterling Limited

Forward contract rate	Rs.48.85
Less: Spot rate	Rs.47.50
Loss	Rs.1.35
Forward Contract Amount	\$20,000
Total loss on entering into forward contract = (\$20,000 × Rs.1.35)	Rs.27,000
Contract period	4 months
Loss for the period 1st January, 2008 to 31st March, 2008 i.e. 3 months falling in the year 2007-2008 will be Rs.27,000 $\times \frac{3}{4}$ =	Rs.20,250

Balance loss of Rs.6,750 (i.e. Rs. 27,000 – Rs. 20,250) for the month of April, 2008 will be recognised in the financial year 2008-2009.

(iv) As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", the change in amount of staff welfare provision amounting Rs. 25,000 is neither a prior period item nor an extraordinary item. It is a change in estimate, which has been occurred in the year 2007-2008.

As per the provisions of the standard, normally, all items of income and expense which are recognised in a period are included in the determination of the net profit or loss for the period. This includes extraordinary items and the effects of changes in accounting estimates. However, the effect of such change in accounting estimate should be classified using the same classification in the statement of profit and loss, as was used previously, for the estimate.

(v) "Employee Stock Option Plan" is a plan in which option is given for a specified period, to employees of a company, which gives such directors, officers or employees the right, but not the obligation, to purchase or subscribe, the shares of the enterprise at a fixed or determinable price.

(vi) According to para 13 of AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.

In the given case, sale of immovable property was carried out before the closure of the books of accounts. This is clearly an event occurring after the balance sheet date but agreement to sell was effected on 15th February 2009 i.e. before the balance sheet date. Registration of the sale deed on 30th April, 2009, simply provides additional information relating to the conditions existing at the balance sheet date. Therefore, adjustment to assets for sale of immovable property is necessary in the financial statements for the year ended 31st March, 2009.

(vii) A Ltd. entered into a binding contract with C Ltd. and therefore, it should recognise a liability of Rs.1,00,000. The entire amount of purchase price of the machine should be recognised in the year ended 31st March, 2009 as loss because future economic benefit from the machine to the enterprise is improbable.

The accounting entry should be as follows:

		Rs.	*Rs.*
Profit and Loss A/c	Dr.	1,00,000	
To C Ltd.			1,00,000
(Being value of machinery fully depreciated because of change in the process of production i.e. obsolescence)			

(viii) Calculation of Stock Reserve

	Rs.
Closing stock of Department Q	27,000
Goods sent by Department P to Department Q at a price 50% above cost	
Hence, profit of Department P included in the stock will be $\left(\frac{\text{Rs.}27{,}000 \times 50}{150}\right)$	9,000
Amount of stock reserve will be Rs.9,000	

(ix) As per para 11 of AS 12 "Government Grants", a grant that became refundable should be treated as an extra-ordinary item as per Accounting Standard 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies". The amount refundable in respect of a government grant related to revenue, is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement. Therefore, refund of grant of Rs. 10 crores should be shown in the profit and loss account of the company as an extra-ordinary item during the financial year 2008-09.

(x) Sometimes debenture holders are offered an option to convert their debts into equity by issuing equity share capital. In such transactions, debentures are redeemed by issuing fresh share capital.

Journal Entry will be as follows:

Debentures A/c	Dr.		
To Equity share capital A/c			

In the above entry, no cash account is opened. Therefore, one can conclude that the conversion of debt to equity is a non-cash transaction.

Question 2

Sun Ltd. and Moon Ltd. were amalgamated on and from 1st April, 2009. A new company Star Ltd. was formed to take over the business of the existing companies. The Balance Sheets of Sun Ltd. and Moon Ltd. as at 31st March, 2009 are given below:

(Rs. in lakhs)

Liabilities	Sun Ltd.	Moon Ltd.	Assets	Sun Ltd.	Moon Ltd.
Share capital:			Fixed Assets:		
Equity shares of Rs.100 each	400	375	Land & Building	275	200
12% Preference shares of Rs.100 each	150	100	Plant & Machinery	175	125
			Investments	75	25
Reserves and surplus:			Current Assets, Loans and Advances:		
Revaluation reserve	75	50	Stock	175	125
General reserve	85	75	Sundry Debtors	125	150
Investment allowance reserve	25	25	Bills Receivables	25	25
			Cash and Bank balances	150	100
Profit and Loss Account	25	15			
Secured loan:					
10% Debentures (Rs.100 each)	30	15			
Current liabilities and provisions:					
Sundry creditors	135	60			
Acceptance	75	35			
	1,000	750		1,000	750

Additional information:

(a) Star Ltd. will issue 5 equity shares for each equity share of Sun Ltd. and 4 equity shares for each equity share of Moon Ltd. The shares are to be issued @ Rs. 30 each, having a face value of Rs. 10 per share.

(b) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of Star Ltd. at a price of Rs. 150 per share (face value Rs. 100).

(c) 10% Debentureholders of Sun Ltd. and Moon Ltd. are discharged by Star Ltd., issuing such number of its 15% Debentures of Rs.100 each so as to maintain the same amount of interest.

(d) Investment allowance reserve is to be maintained for 4 more years.

(e) Liquidation expenses are:

Sun Ltd. Rs.2,00,000

Moon Ltd. Rs.1,00,000

It was decided that these expenses would be borne by Star Ltd.

(f) All the assets and liabilities of Sun Ltd. and Moon Ltd. are taken over at book value.

(g) Authorised equity share capital of Star Ltd. is Rs. 5,00,00,000, divided into equity shares of Rs. 10 each. After issuing required number of shares to the Liquidators of Sun Ltd. and Moon Ltd., Star Ltd. issued balance shares to Public. The issue was fully subscribed.

Required :

Prepare the Balance Sheet of Star Ltd. as at 1st April, 2009 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. *(16 Marks)*

Answer

Balance Sheet of Star Ltd. as at 1st April, 2009

			(Rs. in Lakhs)
Liabilities	*Amount*	*Assets*	*Amount*
Share capital:		Fixed assets:	
Authorised share capital		Goodwill (10+2+1)	13
50,00,000 Equity shares of Rs.10 each	500	Land and building (275+200)	475
Issued and subscribed		Plant and machinery (175+125)	300
50,00,000 Equity shares of Rs.10 each	500	Investment (75+25)	100
2,50,000 Preference shares of Rs.100 each	250	Current assets, loans and advances:	
(Of the above shares 35,00,000 equity shares and all preference shares are allotted as fully paid up for consideration other than cash)		Stock (175+125)	300
Reserves and surplus:		Sundry debtors (125+150)	275
Securities premium (75 + 50 + 400 + 300)	825	Cash and bank (250+150-3)	397
Investment allowance reserve (25+25)	50	Bills receivables (25+25)	50
Secured Loans:		Miscellaneous expenditure:	

15% Debentures (20+10)	30	Amalgamation adjustment account	50
Unsecured loans:	Nil		
Current liabilities and provisions:			
Acceptances (75+35)	110		
Sundry creditors (135+60)	195		
	1,960		1,960

Working Notes:

1.

Computation of Purchase Consideration			*Rs. in lakhs*
		Sun Ltd.	*Moon Ltd.*
(a) Preference shareholders:			
1,50,00,000/100 = 1,50,000 shares			
Share capital = 1,50,000 shares × Rs.100 each	150		
Securities premium = 1,50,000 shares × Rs.50 each	75	225	
1,00,00,000/100 = 1,00,000 shares			
Share capital = 1,00,000 shares × Rs.100 each	100		
Securities premium= 1,00,000 shares × Rs.50 each	50		150
(b) Equity shareholders:			
4,00,00,000/100 × 5 = 20,00,000 shares			
Share capital = 20,00,000 shares × Rs.10 each	200		
Securities premium=20,00,000 shares× Rs.20 each	400	600	
3,75,00,000/100 × 4 = 15,00,000 shares			
Share capital = 15,00,000 shares ×Rs.10 each	150		
Securities premium = 15,00,000 shares ×Rs.20 each	300		450
Amount of purchase consideration		825	600

2.

Calculation of number of debentures issued		*Rs. in lakhs*
	Sun Ltd.	*Moon Ltd.*
10% Debentures of Rs.100 each	30	15
15% Debentures to be issued to maintain same amount of interest:		
Interest = Rs.30,00,000 x 10% = Rs.3,00,000		

Number of 15% Debentures = $\frac{Rs.3,00,000}{15} \times 100$	20	
Interest = Rs.15,00,000 x 10%		
Number of 15% Debentures = $\frac{Rs.1,50,000}{15} \times 100$		10

3.

Net assets taken over		*Rs. in lakhs*
	Sun Ltd.	*Moon Ltd.*
Assets taken over		
Land and building	275	200
Plant and machinery	175	125
Investments	75	25
Stock	175	125
Sundry debtors	125	150
Bills receivable	25	25
Cash and bank	150	100
	1,000	750
Less: Liabilities taken over		
Debentures	20	10
Sundry Creditors	135	60
Bills payable	75	35
	230	105
Net assets taken over	770	645
Purchase consideration	825	600
(Goodwill)/ Capital Reserve	(55)	45
Net goodwill		(10)

4. Liquidation expenses of Sun Ltd. and Moon Ltd., Rs.2 lakhs and Rs.1 lakhs respectively will be debited to Goodwill account in the books of Star Ltd.

Question 3

The Balance Sheet of Dee Limited on 31st March, 2009 was as follows:

Balance Sheet as at 31st March, 2009

Liabilities	Amount Rs.	Assets	Amount Rs.
Share capital:		Fixed assets (at cost less depreciation)	8,00,000
Authorised capital			
50,000, Equity shares of Rs.10 each	5,00,000	Debenture redemption fund investment	2,00,000
Issued and subscribed capital		Cash balance	2,50,000
25,000 Equity shares of Rs.10 each fully paid up	2,50,000	Other current assets	10,00,000
Reserves and surplus:			
General reserve	2,75,000		
Profit and loss A/c	1,00,000		
Debenture redemption reserve	2,50,000		
Secured loans:			
12% Convertible debentures (5,000 Debentures of Rs.100 each)	5,00,000		
Other secured loans	2,50,000		
Current liabilities and provisions	6,00,000		
Proposed dividend	25,000		
	22,50,000		22,50,000

At the General Meeting it was resolved to:

1. *Pay proposed dividend of 10% in cash.*
2. *Give existing shareholders the option to purchase one share of Rs.10 each at Rs.15 for every five shares held. This option was taken up by all the shareholders.*
3. *Redeem the debentures at a premium of 5% and also confer option to the debentureholders to convert 50% of their holding into equity shares at a predetermined price of Rs. 15 per share and balance payment to be made in cash.*

Holders of 3,000 debentures opted to get their debentures redeemed in cash only while the rest opted for getting the same converted into equity shares as per the terms of issue. Debenture redemption fund investment realized Rs. 1,80,000 on sales.

You are required to redraft the Balance Sheet after giving effects to the right issue and redemption of debentures. Also show the calculations in respect of number of equity shares issued and cash payment. *(16 Marks)*

Answer

(a) **Balance Sheet of Dee Ltd.**

as at 31st March, 2009

Liabilities	*Amount (Rs.)*	*Assets*	*Amount (Rs.)*
Authorised Capital		Fixed Assets (at cost less depreciation)	8,00,000
50,000 Equity shares of Rs.10 each	5,00,000		
Issued and subscribed capital		Other current assets	10,00,000
37,000 Equity shares of Rs.10 each fully paid up	3,70,000		
Reserves & surplus		Cash balance (W.N.4)	60,000
General reserve (W.N.2)	4,80,000		
Securities premium (W.N.3)	60,000		
Profit and loss A/c	1,00,000		
Secured loan			
Other secured loan	2,50,000		
Current liabilities and provisions	6,00,000		
	18,60,000		18,60,000

(b)

Calculation of number of equity shares issued:		
I.	Number of equity shares issued as right issue (25,000 shares ÷ 5)	5,000 shares
II.	Debentureholders who opted for the scheme of conversion into equity shares	
	2,000 debentureholders opted for the scheme	
	Total value (2,000 debentures × Rs.100)	Rs.2,00,000
	Premium on redemption @ 5%	Rs.10,000
		Rs.2,10,000
	50% of their holding converted into equity shares	Rs.1,05,000

	Number of equity shares to be issued to debentureholders $= \left[\frac{\text{Rs.}1{,}05{,}000}{\text{Rs.}15}\right]$	7,000 shares
	Total number of equity shares issued (5,000 + 7,000) shares	12,000 shares

(c) Cash payment to debentureholders:

			Rs.
I.	3,000 Debentureholders preferred cash		
	Total cash paid to them	3,00,000	
	Premium on redemption @ 5%	15,000	3,15,000
II.	2,000 Debentureholders opted for the scheme		
	Total value	2,00,000	
	Add: Premium on redemption @ 5%	10,000	
		2,10,000	
	50% of their value converted into equity shares	1,05,000	
	Balance paid to debentureholders in cash		1,05,000
	Total cash paid to debentureholders		4,20,000

Working Notes:

1. Debenture Redemption Reserve Account

	Particulars	*Rs.*		*Particulars*	*Rs.*
To	Premium on redemption of debentures (15,000 + 10,000)	25,000	By	Balance b/d	2,50,000
To	Loss on sale of Debenture Redemption Reserve Investment	20,000			
To	General Reserve	2,05,000			
		2,50,000			2,50,000

2. General Reserve Account

	Particulars	*Rs.*		*Particulars*	*Rs.*
To	Balance c/d	4,80,000	By	Balance b/d	2,75,000
			By	Debenture redemption reserve (W.N.1)	2,05,000
		4,80,000			4,80,000

3. Calculation of Securities Premium

Number of equity shares of Rs.10 issued at Rs.15 per share	12,000 shares
Security premium per share	Rs.5
Total securities premium (12,000 shares x Rs.5)	Rs.60,000

4. Cash Account

Particulars	*Amount (Rs.)*	*Particulars*	*Amount (Rs.)*
To Balance b/d	2,50,000	By Proposed dividend	25,000
To Equity shareholders (5,000×15)	75,000	By Debentureholders (Rs.1,05,000+Rs.3,15,000)	4,20,000
To Sale of Debenture Redemption Reserve Investment	1,80,000	By Balance c/d	60,000
	5,05,000		5,05,000

Question 4

DM Ltd., Delhi has a branch in London. London branch is an integral foreign operation of DM Ltd. At the end of the year 31st March, 2009, the branch furnishes the following trial balance in U.K. Pound:

Particulars	*£*	*£*
	Dr.	*Cr.*
Fixed assets (Acquired on 1st April, 2005)	*24,000*	
Stock as on 1st April, 2008	*11,200*	
Goods from head office	*64,000*	
Expenses	*4,800*	
Debtors	*4,800*	
Creditors		*3,200*
Cash at bank	*1,200*	
Head office account		*22,800*
Purchases	*12,000*	
Sales		*96,000*
	1,22,000	*1,22,000*

In head office books, the branch account stood as shown below:

London Branch A/c

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Balance b/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	49,26,000	By Balance c/d	17,20,000
	69,36,000		69,36,000

The following further information are given:

(a) Fixed assets are to be depreciated @ 10% p.a on straight line basis.

(b) On 31st March, 2009 :

Expenses outstanding	-	*£ 400*
Prepaid expenses	-	*£ 200*
Closing stock	-	*£ 8,000*

(c) Rate of Exchange:

1st April, 2005	-	*Rs. 70 to £ 1*
1st April, 2008	-	*Rs. 76 to £ 1*
31st March, 2009	-	*Rs. 77 to £ 1*
Average	-	*Rs. 75 to £ 1*

You are required to prepare:

(i) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees.

(ii) Trading and profit and loss account for the year ended 31st March, 2009 and the Balance Sheet as on that date of London branch as would appear in the books of Delhi head office of DM Ltd. *(16 Marks)*

Answer

(i) Trial Balance of London Branch as on 31st March, 2009

Particulars	U.K. Pound	Rate per U.K. Pound	Dr. (Rs.)	Cr. (Rs.)
Fixed assets	24,000	70	16,80,000	
Stock (as on 1st April, 2008)	11,200	76	8,51,200	
Goods from head office	64,000	-	49,26,000	

Sales	96,000	75		72,00,000
Purchases	12,000	75	9,00,000	
Expenses (4,800 + 400 – 200)	5,000	75	3,75,000	
Debtors	4,800	77	3,69,600	
Creditors	3,200	77		2,46,400
Outstanding expenses	400	77		30,800
Prepaid expenses	200	77	15,400	
Cash at bank	1,200	77	92,400	
Head office account		-		17,20,000
Difference in foreign exchange translation				12,400
			92,09,600	92,09,600

Closing stock will be (£ 8,000 × Rs. 77) = Rs.6,16,000

(ii) Trading and Profit & Loss Account

for the year ended 31st March, 2009

	Particulars	*Amount (Rs.)*		*Particulars*	*Amount (Rs.)*
To	Opening stock	8,51,200	By	Sales	72,00,000
To	Purchases	9,00,000	By	Closing stock	6,16,000
To	Goods from head office	49,26,000			
To	Gross profit	11,38,800			
		78,16,000			78,16,000
To	Expenses	3,75,000	By	Gross profit	11,38,800
To	Depreciation	1,68,000	By	Profit due to foreign exchange difference	12,400
To	Net profit	6,08,200			
		11,51,200			11,51,200

(iii) Balance Sheet as on 31st March, 2008

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Head office			Fixed Assets	16,80,000	
Balance	17,20,000		*Less*: Depreciation	1,68,000	15,12,000
Add: Net profit	6,08,200	23,28,200	Debtors		3,69,600

Outstanding expenses	30,800	Prepaid expenses	15,400
Creditors	2,46,400	Closing stock	6,16,000
		Cash at bank	92,400
	26,05,400		26,05,400

Question 5

(a) *From the following information, you are required to prepare Profit and Loss Account of Zee Bank Ltd., for the year ending 31st March, 2009:*

	Rs.		*Rs.*
Interest and Discount	*44,00,000*	*Interest expended*	*13,60,000*
Other Income	*1,25,000*	*Operating expenses*	*13,31,000*
Income on investments	*5,000*	*Interest on balance with RBI*	*25,000*

Additional information:

(a) *Rebate on bills discounted to be provided for Rs. 15,000*

(b) *Classification of advances:*

	Rs.
Standard assets	*25,00,000*
Sub-standard assets	*5,60,000*
Doubtful assets not covered by security	*2,55,000*
Doubtful assets covered by security	
For 1 year	*25,000*
For 2 years	*50,000*
For 3 years	*1,00,000*
For 4 years	*75,000*
Loss assets	*1,00,000*

(c) *Make tax provision @ 35%*

(d) *Profit and Loss A/c (Cr.) Rs. 40,000.*

(b) *Dee Limited furnishes the following Balance Sheet as at 31st March, 2008:*

	Rs.'000	*Rs.'000*
Liabilities		
Share capital:		
Authorised capital		*30,00*

Issued and subscribed capital:		
2,50,000 Equity shares of Rs.10 each fully paid up	*25,00*	
2,000, 10% Preference shares of Rs.100 each		
(Issued two months back for the purpose of buy back)	*2,00*	*27,00*
Reserves and surplus:		
Capital reserve	*10,00*	
Revenue reserve	*30,00*	
Securities premium	*22,00*	
Profit and loss account	*35,00*	*97,00*
Current liabilities and provisions:		*14,00*
		1,38,00
Assets		
Fixed assets		*93,00*
Investments		*30,00*
Current assets, loans and advances (including cash and bank balance)		*15,00*
		1,38,00

The company passed a resolution to buy back 20% of its equity capital @ Rs.50 per share. For this purpose, it sold all of its investment for Rs.22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

(8 + 8 = 16 Marks)

Answer

(a) **Form 'B'**

Zee Bank Ltd.

Profit & Loss Account for the year ended 31st March, 2009

	Particulars	*Schedule No.*	*Year ended 31st March, 2009*
I.	**Income:**		
	Interest Earned	13	44,30,000
	Other Income	14	1,25,000
	Total		45,55,000

II.	**Expenditure**		
	Interest Expended	15	13,60,000
	Operating Expense	16	13,31,000
	Provisions and Contingencies (W.N.3)		10,17,050
	Total		37,08,050
III.	**Profit/Loss**		
	Net profit for the year		8,46,950
	Profit brought forward		40,000
	Total		8,86,950
IV.	**Appropriations:**		
	Transfer to Statutory Reserve (@ 25% on Rs.8,46,950)		2,11,737.50
	Balance carried forward to Balance Sheet		6,75,212.50
	Total		8,86,950

Schedule 13: Interest Earned

Particulars	*Rs.*
Interest and discount	44,00,000
Income on Investment	5,000
Interest on balance with RBI	25,000
Total	44,30,000

Working Notes:

1. Calculation of provisions on non-performing assets

Particulars	*Amount Rs.*	*% of Provisions*	*Provision Rs.*
Standard assets	25,00,000	0.40	10,000
Sub-standard assets*	5,60,000	10	56,000
Doubtful assets not covered by security	2,55,000	100	2,55,000
Doubtful assets covered by security			
For 1 year	25,000	20	5,000
For 2 years	50,000	30	15,000
For 3 years	1,00,000	30	30,000

* It is assumed that the all sub-standard assets are fully secured.

For 4 years	75,000	100	75,000
Loss assets	1,00,000	100	1,00,000
			5,46,000

2. Calculation of provision for tax

Tax = 35% of [Total income – Total expenditure (excluding tax)].

Tax = 35% of [Rs.44,30,000+Rs.1,25,000–(Rs.13,60,000+Rs.13,31,000+Rs.5,46,000+Rs.15,000)]

Tax = Rs.4,56,050

3. Total amount of provisions and contingencies

= Provision for non-performing assets + Provision for tax + Rebate on bills discounted

= Rs.5,46,000 + Rs.4,56,050 + Rs.15,000

= Rs.10,17,050

(b) **In the books of Dee Limited**

Journal Entries

	Particulars		*Dr.*	*Cr.*
			(Rs. in '000)	
(i)	Bank Account	Dr.	22,00	
	Profit and Loss Account	Dr.	8,00	
	To Investment Account			30,00
	(Being the investments sold at loss for the purpose of buy back)			
(ii)	Equity Share Capital Account	Dr.	5,00	
	Premium payable on buy back Account	Dr.	20,00	
	To Equity shares buy back Account			25,00
	(Being the amount due on buy back)			
(iii)	Securities Premium Account	Dr.	20,00	
	To Premium payable on buy back Account			20,00
	(Being the premium payable on buy back adjusted against securities premium account)			

(iv)	Revenue Reserve Account*	Dr.	3,00	
	To Capital Redemption Reserve Account			3,00
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)			
(v)	Equity shares buy-back Account	Dr.	25,00	
	To Bank Account			25,00
	(Being the payment made on buy back)			

Balance Sheet of Dee Limited as on 1st April, 2008
(After buy back of shares)

Liabilities	*Rs.'000*	*Rs.'000*
Share capital		
Authorised capital:		30,00
Issued and subscribed capital:		
2,00,000 Equity shares of Rs.10 each fully paid up	20,00	
2,000 10% Preference shares of Rs.100 each fully paid up	2,00	22,00
Reserves and surplus:		
Capital reserve	10,00	
Capital redemption reserve	3,00	
Revenue reserve	29,00	
Profit and loss A/c (35,00 – 8,00)	27,00	69,00
Current liabilities and provisions		14,00
		10,500
Fixed Assets		93,00
Current assets loans and advances (including cash and bank balance) (15,00+22,00- 25,00)		12,00
		10,500

[*] Alternatively, 'Securities Premium' account may also be used for transfer to 'Capital Redemption Reserve Account.'

Question 6

(a) *P, Q and R are partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 31st March, 2009 is as follows:*

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Plant & Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the firm. The following are the amounts realized from the assets:

	Rs.
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to Rs.1,500. A bill for Rs.4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

(a) Realization account

(b) Partners' capital accounts

(c) Cash account. *(6 Marks)*

(b) *Answer the following:*

(i) Axe Limited began construction of a new plant on 1st April, 2008 and obtained a special loan of Rs.4,00,000 to finance the construction of the plant. The rate of interest on loan was 10%.

The expenditure that were made on the project of plant were as follows:

	Rs.
1st April, 2008	*5,00,000*
1st August, 2008	*12,00,000*
1st January, 2009	*2,00,000*

The company's other outstanding non-specific loan was Rs.23,00,000 at an interest rate of 12%.

The construction of the plant completed on 31st March, 2009. You are required to:

(a) Calculate the amount of interest to be capitalized as per the provisions of AS 16 "Borrowing Cost".

(b) Pass a journal entry for capitalizing the cost and the borrowing cost in respect of the plant. *(5 Marks)*

(ii) Compute Basic Earnings per share from the following information:

Date	*Particulars*	*No. of shares*
1st April, 2008	*Balance at the beginning of the year*	*1,500*
1st August, 2008	*Issue of shares for cash*	*600*
31st March, 2009	*Buy back of shares*	*500*

Net profit for the year ended 31st March, 2009 was Rs.2,75,000. *(5 Marks)*

Answer

(a) **Realisation Account**

	Particulars	*Amount*				*Amount*
To	Debtors A/c	48,000	By	Creditors A/c		48,000
To	Stock A/c	60,000	By	Cash A/c (assets realised):		
To	Fixtures A/c	24,000		Plant & Machinery	1,02,000	
To	Plant and machinery A/c	1,08,000		Fixtures	18,000	
To	Cash A/c (Creditors)	45,600		Stock	84,000	
To	Cash A/c(Sales Tax)	4,200		Debtors	44,400	2,48,400
To	Cash A/c (realisation expenses)	1,500				

To Profit on realisation P 2,040 Q 2,040 R 1,020	5,100		
	2,96,400		2,96,400

Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
To Cash A/c (Bal. fig.)	1,46,040	74,040	37,020	By Balance b/d	1,20,000	48,000	24,000
				By Reserve fund	24,000	24,000	12,000
				By Realisation A/c (Profit)	2,040	2,040	1,020
	1,46,040	74,040	37,020		1,46,040	74,040	37,020

Cash Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	60,000	By Realisation A/c (Creditors)	45,600
To Realisation A/c (assets realised)	2,48,400	By Realisation A/c (Expenses)	1,500
		By Realisation A/c (Sales tax)	4,200
		By Partners' Capital Accounts	
		P	1,46,040
		Q	74,040
		R	37,020
	3,08,400		3,08,400

(b) Total expenses to be capitalised for borrowings as per AS 16 "Borrowing Costs":

	Rs.
Cost of Plant (5,00,000 + 12,00,000 + 2,00,000)	19,00,000
Add: Amount of interest to be capitalised (W.N.2)	1,54,000
	20,54,000

Journal Entry

		Rs.	*Rs.*
31st March, 2009	Plant A/c Dr.	20,54,000	
	To Bank A/c		20,54,000
	[Being amount of cost of plant and borrowing cost thereon capitalised]		

Working Notes:

1. Computation of average accumulated expenses

		Rs.
1st April, 2008	Rs.5,00,000 $\times \frac{12}{12}$	5,00,000
1st August, 2008	Rs.12,00,000 $\times \frac{8}{12}$	8,00,000
1st January, 2009	Rs.2,00,000 $\times \frac{3}{12}$	50,000
		13,50,000

2. Amount of interest capitalised

	Rs.
On specific borrowing (Rs. 4,00,000 ×10%)	40,000
On non-specific borrowings (Rs. 13,50,000 – Rs. 4,00,000) × 12%	1,14,000
Amount of interest to be capitalised	1,54,000

(b) (ii) Computation of weighted average number of shares outstanding during the period

Date	*No. of equity shares*	*Period outstanding*	*Weights (months)*	*Weighted average number of shares*
(1)	(2)	(3)	(4)	(5) = (2) x (4)
1st April, 2008	1,500 (Opening)	12 months	12/12	1,500
1st August, 2008	600 (Additional issue)	8 months	8/12	400
31st March, 2009	500 (Buy back)	0 months	0/12	-
Total				1,900

$$\textbf{Basic Earnings Per Share} = \frac{\text{Net Profit or Loss for the period attributable to Equity Shareholders}}{\text{Weighted Average Number of Equity Shares outstanding during the period}}$$

$$= \frac{\text{Rs. } 2{,}75{,}000}{1{,}900 \text{ shares}} = \text{Rs. } 144.74$$