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# PAPER – 1 : ACCOUNTING

## QUESTIONS

### Profit or Loss Prior to Incorporation

1. A firm which was carrying on business from 1st January, 2009 gets itself incorporated as a company on 1st May, 2009. The first accounts are drawn up to 30th September, 2009. The gross profit for the period is Rs.56,000. The general expenses are Rs.14,220, directors' fee Rs.12,000 p.a.; formation expenses Rs.1,500. Rent up to 30th June is Rs.1,200 p.a., after which it is increased to Rs.3,000 per annum. Salary of the manager, who upon incorporation of the company was made a director, is Rs.6,000 p.a. His remuneration thereafter is included in the above figure of fee to directors.

   Give Profit and Loss Account showing pre-and post-incorporation profits. The net sales are Rs.8,20,000, the monthly average of which, for the first four months of 2009 is half of that of the remaining period, the company earned a uniform profit. Interest and tax may be ignored.

### Insolvency

2. Ram commenced business on 1.7.2003 with a capital of Rs. 2,00,000. On 31st March, 2009 an adjudication order for insolvency was made against him. Following are the other details available relating to his business as on 31.3.2009:

| | Rs. |
|---|---|
| Sundry Creditors | 1,50,000 |
| Mortgage Loan (of building) | 1,00,000 |
| Godown Rent (2 months) | 5,000 |
| Wages due | 8,000 |
| Mrs. Ram loan (given out of her own source) | 25,000 |
| Cost of Building (estimated to realise Rs. 1,00,000) | 1,60,000 |
| Debtors (includes bad of Rs. 10,000) | 90,000 |
| Stock in trade (Realisation value 10,000) | 15,000 |
| Cash in Hand/Bank | 10,000 |

   He maintained books upto 31.3.2006 and profit upto 31.3.2006 was Rs. 1,40,000. He did not maintain books from 1.4.2006 onwards. He has been drawing Rs. 4,000 per month and goods worth Rs. 1,500 per month uniformly from April, 2006 onwards.

   Prepare statement of affairs and deficiency account.

### Investment Accounts

3. On 1.4.2009, Shridhar has 2,500 equity shares of 'A' Ltd., at a book value of Rs.15 per share (Face value Rs.10). On 20th June, he purchased another 500 shares of the

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company @ Rs.16 per share. The directors of A Ltd., announced a bonus and rights issue. No dividend was payable on these issues. The terms of the issue are as follows:

Bonus basis 1 : 6 (Date 16th August).

Rights basis 3 : 7 (Date 31st August) Price Rs.15 per share.

Due date for payment - 30th September.

Shareholders can transfer their rights in full or in part. Accordingly, Shridhar sold $33\frac{1}{3}\%$ of his entitlement to Manohar for a consideration of Rs.2 per share and exercised the remaining rights.

Dividends for the year ended 31st March at the rate of 20% were declared by A Ltd., and received by Shridhar on 31st October. Dividends for shares acquired by him on 2nd June are to be adjusted against the cost of purchase.

On 15th November, Shridhar sold 2,500 equity shares at a premium of Rs.5 per share.

**Required:** Prepare Investment Account in the books of Shridhar.

For your exercise, assume that the books are closed on 31.12.2009 and shares are valued at average cost.

### Insurance Claim for Loss of Stock

4. The premises of Sad Ltd. caught fire on 22nd January, 2010 and the stock was damaged. The firm made up accounts to 31 March each year and on 31st March, 2009 the stock at cost was Rs. 13,27,200 as against Rs. 9,62,200 on 31st March 2008.

Purchases from 1st April, 2009 to the date of fire were Rs. 34,82,700 as against Rs. 45,25,000 for the full year 2008-09 and the corresponding sales figure were Rs. 49,17,000 and Rs. 52,00,000 respectively.

You are given the following further information:

(i) In July, 2009, goods costing Rs. 1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2009-2010, a clerk misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs.2000 per week from 1st April, 2009 until the clerk was dismissed on 18th August, 2009.

(iii) The rate of gross profit is constant.

From the above information, make an estimate of the stock in hand on the date of fire.

### Managerial Remuneration

5. Calculate the managerial remuneration from the following particulars of Astha Ltd. due to the managing director of the company at the rate of 5% of the profits. Also determine the excess remuneration paid, if any:



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| | Rs. |
|---|---|
| Net Profit | 2,00,000 |
| Net Profit is calculated after considering the following: | |
| Depreciation | 40,000 |
| Preliminary expenses | 10,000 |
| Tax provision | 3,10,000 |
| Director's fee | 8,000 |
| Bonus | 15,000 |
| Profit on sale of fixed assets (original cost: Rs.20,000 written down value:Rs.11,000) | 15,500 |
| Provision for doubtful debts | 9,000 |
| Scientific research expenditure (for setting up new machinery) | 20,000 |
| Managing Director's remuneration paid | 30,000 |
| Other information: | |
| Depreciation allowable under Schedule XIV of the Companies Act | 35,000 |
| Bonus liability as per Payment of Bonus Act, 1965 | 18,000 |

**Accounting for Hire Purchase Instalments**

6. From the following information extracted from the books of Perfect Investment Pvt. Ltd. prepare Hire Purchase Trading account for the year ended 31.3.2009, showing the profit in respect of the hire-purchase business of the company:

    (i) Instalments due but not received on 1.4.2008 – Rs.60,000.

    (ii) Instalments due but not received on 31.3.2009 – Rs.1,00,000.

    (iii) Cash received during the financial year 2008-2009 by way of a hire-purchase Instalments Rs.80,00,000.

    (iv) Value of Stock 'out' on hire-purchase as at 1.4.2008 at hire-purchase price (loading 20% above cost) Rs.2,40,000.

    (v) (a) Cost price of truck 'out' on hire-purchase as at 31.3.2009 - Rs.40,00,000.

    (b) Total amount of instalments receivable in respect of v (a) above Rs.48,00,000.

    (c) Total amount of instalments received and due up to 31.3.2009 in respect of v (b) above Rs.36,00,000.

    (vi) Purchase of trucks during the financial year 2008-09 Rs.80,00,000.

    (vii) Sale of trucks, otherwise than on H.P. (at a profit of 6.25% of cost thereof), Rs.8,50,000.

    (viii) Body building charges in respect of truck, sold on H.P. Rs.4,00,000.



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(ix) Interest paid was Rs.80,000 and unsold trucks on 31.3.2009 at cost price were Rs.1,60,000 (Hire-purchase price Rs.1,92,000).

**Accounting for Redemption of Debentures**

7. The authorized capital of a company consists of 4,00,000 equity shares of Rs.10 each. But of these 1,20,000 shares have been issued as fully paid.

   The company has an outstanding 14% Debentures of Rs.12,00,000 redeemable at 102 per cent and interest has been paid up to date on December 31, 2008. On that date, the balance of the Debenture Redemption Reserve Account is Rs.10,00,000 and of corresponding Investment Account Rs.10,00,000 (at cost) of which the market value is Rs.9,00,000.

   The directors resolved to redeem the Debentures on January 1, 2009 and the holders are given an option to receive payment either wholly in cash or wholly in fully paid equity shares @ 8 shares for every Rs.100 of debentures.

   75% of the holders decided to exercise the option for taking shares in repayment and cash for the rest is procured by realizing an adequate amount of investment at the prevailing market value.

   Draw up journal entries (including Cash Book Entries) to give effect to the above transactions.

**Amalgamation of Companies**

8. The Balance Sheets of A Co. Ltd. and B Co. Ltd., as on 31st October, 2009 are as follows:

**Balance Sheet of A Co. Ltd.**

| *Liabilities* | | *Rs.* | *Assets* | | *Rs.* |
|---|---|---|---|---|---|
| Share Capital: | | | Fixed Assets: | | |
| Authorised Capital: | | | Goodwill | 80,000 | |
| 10,000 shares of Rs.100 each | | 10,00,000 | Others | 8,00,000 | 8,80,000 |
| Issued Capital: | | | Current assets, loans and advances | | 9,00,000 |
| 10,000 shares of Rs.100 each fully paid | | 10,00,000 | | | |
| Reserves and Surplus: | | | | | |
| Capital reserve | 2,00,000 | | | | |
| General reserve | 70,000 | 2,70,000 | | | |
| Unsecured loans | | 2,00,000 | | | |
| Current liabilities and provisions: | | | | | |



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| | | | | |
|---|---|---|---|---|
| Sundry Creditors | 3,10,000 | | | |
| | 17,80,000 | | | 17,80,000 |

**Balance Sheet of B Co. Ltd.**

| *Liabilities* | *Rs.* | *Assets* | | *Rs.* |
|---|---|---|---|---|
| Share Capital: | | Fixed Assets | | 16,00,000 |
| Authorised Capital: 2,00,000 shares of | | Current assets, loans and advances: | | |
| Rs.10 each | 20,00,000 | Bank | 2,00,000 | |
| Issued Capital: | | Others | 6,60,000 | 8,60,000 |
| 80,000 shares of Rs.10 each fully paid | 8,00,000 | | | |
| Reserves and Surplus: | | | | |
| General reserve | 8,00,000 | | | |
| Secured Loans | 5,00,000 | | | |
| Current liabilities and provisions: | | | | |
| Sundry Creditors | 3,60,000 | | | |
| | 24,60,000 | | | 24,60,000 |

It was proposed that A Co. Ltd., should be taken over by B Co. Ltd. The following arrangement was accepted by both the companies:

(a) Goodwill of A Co. Ltd., is considered valueless.

(b) Arrears of depreciation in A Co. Ltd. amounted to Rs.40,000.

(c) The holder of every 2 shares in A Co. Ltd., was to receive:

 (i) as fully paid at par, 10 shares in B Co. Ltd., and

 (ii) so much cash as is necessary to adjust the right of shareholders of both the companies in accordance with the intrinsic value of the shares as per their balance sheets subject to necessary adjustment with regard to goodwill and depreciation in A Co. Ltd.'s Balance Sheet.

You are required to:-

(a) Determine the composition of purchase consideration; and

(b) Show the Balance Sheet after absorption.

**Partnership –Admission cum Retirement**

9. Glad and Happy, who make up their accounts to 30 September in each year, carried on business in partnership under the firm name of Feelings.



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Their partnership agreement provided:

(1) Profits and losses should be shared Glad - two-third and Happy - one-third.

(2) Interest on capital accounts should be allowed at the rate of 6% per annum but no interest should be allowed or charged on current accounts.

(3) On the retirement or admission of a partner:

  (i) If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission is to be arrived at by apportionment on a time basis except where otherwise agreed.

  (ii) No account for goodwill is to be maintained in the firm's books, any adjusting entries for transactions between the partners being made in their capital accounts.

  (iii) Any balance due to an outgoing partner is to carry interest at 8% per annum from the date of his retirement to the date of payment.

Glad retired from the firm on 31st March 2009 and, on the same day, Happy took into partnership Joy, an employee of the firm. It was agreed that the terms of the previous partnership agreement should apply in all respects except that, as from the date, profits or losses are to be shared: Happy - three-fifth, Joy - two-fifth.

The trial balance extracted from the books of the firm as on 30th September 2009 was as follows:

| *Particulars* | *Rs.* | *Rs.* |
|---|---|---|
| Capital Accounts – 30 September 2009 | | |
| Glad | - | 8,000 |
| Happy | - | 6,000 |
| Current Accounts – 30 September 2009 | | |
| Glad | - | 2,400 |
| Happy | - | 1,600 |
| Joy – Cash introduced 31st March, 2009 | - | 3,000 |
| Plant and machinery at cost | 14,000 | - |
| Plant and machinery: Provision for depreciation -30th September, 2008 | - | 2,800 |
| Motor vehicles at cost | 6,200 | - |
| Motor vehicles: provision for depreciation – 30th September 2008 | - | 3,400 |
| Purchases | 62,000 | - |
| Stock – 30th September 2008 | 12,400 | - |
| Wages | 14,600 | - |
| Salaries | 10,800 | - |



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| | | |
|---|---|---|
| Debtors | 4,600 | - |
| Sales | - | 96,000 |
| Trade expenses | 1,600 | - |
| Creditors | - | 6,200 |
| Rent and rates | 1,400 | - |
| Bad debts | 600 | - |
| Balance at bank | 1,200 | - |
| | 1,29,400 | 1,29,400 |

You are given the following further information:

(1) The value of the firm's goodwill as on 31st March 2009 was agreed to be Rs.12,000.

(2) On 31st March, 2009, Joy had paid Glad Rs.5,000 on account of the balance due to him on retirement. But no entry had been made in the books in respect of this payment. The balance due to Glad after taking into account this payment remained unpaid as on 30th September, 2009.

(3) Glad on retirement had taken over one of the firm's motor vehicles and it was agreed that he should be charged for it at its written down value on the date of his retirement. The vehicle had cost Rs.1,400 and up to 30th September, 2009 depreciation of Rs.625 had been provided on it.

(4) The stock as on 30th September 2009 was valued at Rs.14,200.

(5) Partners' drawings which are included in salaries were as follows:

Glad Rs.1,800; Happy Rs.2,400; Joy Rs.900.

(6) Salaries also included Rs.1,200 paid to Joy prior to his being admitted as a partner and which is to be charged against the half-year profits of the firm.

(7) Professional charges of Rs.250 included in trade expenses are specifically attributable to the second half of the year.

(8) The whole of the charge of Rs.600 for bad debts related to the period upto 31st March, 2009.

(9) A bad debts provision specifically, attributable to the second half of the year of 5% of the total debtors is to be made as on 30th September 2009.

(10) As on 30th September 2009, rent paid in advance amounted to Rs.400 and trade expenses accrued amounted to Rs.180.

(11) Provision is to be made for depreciation on plant and machinery and on motor vehicles at the rates of 10% and 25% per annum respectively, calculated on cost.

You are required to prepare:

(a) The Trading and profit and loss account for the year ended 30th September 2009.



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(b) Partner's capital and current accounts for the year ended 30th September 2009, and

(c) The balance sheet as on that date.

**Branch Accounts**

10. Kashi Cloth Mills opened a branch at Delhi on 1st April, 2008. The goods were invoiced to the branch at selling price which was 125% of the cost to the head office.

    The following are the particulars of the transactions relating to branch during the year ended 31st March, 2009:

| | | *Rs.* |
|---|---|---|
| Goods sent to branch at cost to head office | | 28,08,400 |
| Sales: | Rs. | |
| Cash | 12,50,700 | |
| Credit | 17,74,300 | 30,25,000 |
| Cash collected from debtors | | 15,70,000 |
| Discount allowed to debtors | | 15,700 |
| Returns from debtors | | 10,000 |
| Spoiled cloth in bales written off at invoice price | | 5,000 |
| Cheques sent to branch for: | Rs. | |
| Rent | 72,000 | |
| Salaries | 1,80,000 | |
| Other Expenses | 35,000 | 2,87,000 |

Prepare Branch Account ascertaining profit for the year ended 31st March, 2009 after preparing Memorandum Branch Stock account and Memorandum Branch Debtors Account.

**Accounting for Employees Stock Option Plan**

11. At the beginning of year 1, an enterprise grants 300 options to each of its 1,000 employees. The contractual life (comprising the vesting period and the exercise period) of options granted is 6 years. The other relevant terms of the grant are as below:

| | |
|---|---|
| Vesting Period | 3 years |
| Exercise Period | 3 years |
| Expected Life | 5 years |
| Exercise Price | Rs. 50 |
| Market Price | Rs. 50 |
| Expected forfeitures per year | 3% |



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The fair value of options, calculated using an option pricing model, is Rs. 15 per option. Actual forfeitures, during the year 1, are 5 per cent and at the end of year 1, the enterprise still expects that actual forfeitures would average 3 per cent per year over the 3-year vesting period. During the year 2, however, the management decides that the rate of forfeitures is likely to continue to increase, and the expected forfeiture rate for the entire award is changed to 6 per cent per year. It is also assumed that 840 employees have actually completed 3 years vesting period.

200 employees exercise their right to obtain shares vested in them in pursuance of the ESOP at the end of year 5 and 600 employees exercise their right at the end of year 6. Rights of 40 employees expire unexercised at the end of the contractual life of the option, i.e., at the end of year 6. Face value of one share of the enterprise is Rs. 10.

**Liquidation of Companies**

12. The following is the Balance Sheet of Confidence Builders Ltd., as on 30th September, 2009:

| *Liabilities* | | *Rs.* | *Assets* | *Rs.* |
|---|---|---|---|---|
| Share Capital : | | | Land and Buildings | 1,20,000 |
| Issued : 11% Preference | | | Sundry Current Assets | 3,95,000 |
| Shares of Rs. 10 each | | 1,00,000 | Profit & Loss Account | 38,500 |
| 10,000 Equity Shares of Rs. 10 each, fully paid up | | 1,00,000 | Debenture Issue Expenses not written off | 2,000 |
| 5,000 Equity shares of Rs. 10 each, Rs. 7.50 per share paid-up | | 37,500 | | |
| 13% Debentures | | 1,50,000 | | |
| Mortgage Loan | | 80,000 | | |
| Bank overdraft | | 30,000 | | |
| Creditors for Trade | | 32,000 | | |
| Income tax-arrears : | | | | |
| (Assessment concluded in July, 2009) | | | | |
| Assessment Yr. 2007-08 | 21,000 | | | |
| Assessment Yr. 2008-09 | 5,000 | 26,000 | | |
| | | 5,55,500 | | 5,55,500 |

Mortgage loan was secured against Land and Buildings. Debentures were secured by a floating charge on all the other assets. The company was unable to meet the payments and therefore the debenture holders appointed a Receiver and this was followed by a resolution for members voluntary winding up. The Receiver for the debenture holders



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brought the land and buildings to auction and realised Rs. 1,50,000. He also took charge of sundry assets of the value of Rs. 2,40,000 and realised Rs. 2,00,000. The Liquidator realised Rs. 1,00,000 on the sale of the balance of sundry current assets. The bank overdraft was secured by a personal guarantee of two of the directors of the company and on the Bank raising a demand the Directors paid off the dues from their personal resources. Costs incurred by the Receiver were Rs. 2,000 and by the Liquidator Rs. 2,800. The Receiver was not entitled to any remuneration but the Liquidator was to receive 3% fee on the value of assets realised by him. Preference shareholders had not been paid dividend for the period after 30th September, 2007 and interest for the last half-year was due to debenture holders.

Prepare the Accounts to be submitted by the Receiver and the Liquidator.

**Financial Statements of Banking Companies**

13. (a) From the following particulars, you are required to compute the amount of provision to be shown in the profit and loss account of ABC Bank Limited.

| | *Rs. in lakhs* |
|---|---|
| Standard Assets | 5,000 |
| Sub-standard Assets | 1,200 |
| Doubtful assets not covered by security | 200 |
| Doubtful assets covered by security | |
| upto 1 year | 500 |
| upto 3 years | 300 |
| upto 4 years | 300 |
| Loss Assets | 200 |

(b) The following particulars are extracted from the (Trial Balance) Books of the M/s Commercial Bank Ltd. for the year ending 31st March, 2009:

| | | *Rs.* |
|---|---|---|
| (i) | Interest and Discounts | 1,96,62,400 |
| (ii) | Rebate on Bills Discounted (balance on 1.4.2008) | 65,040 |
| (iii) | Bills Discounted and purchased | 67,45,400 |

It is ascertained that proportionate discount not yet earned on the Bills Discounted which will mature during 2009-2010 amounted to Rs. 92,760.

Pass the necessary Journal entries with narration adjusting the above and show:

(a) Rebate on Bills Discounted Account; and

(b) Interest and Discount Account in the ledger of the Bank.



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**Financial Statements of Insurance Companies**

14. From the following information as on 31st March, 2009, prepare the Revenue Accounts of Sagar Bhima Co. Ltd. engaged in Marine Insurance Business:

| | *Particulars* | *Direct Business (Rs.)* | *Re-insurance (Rs.)* |
|---|---|---|---|
| I. | Premium : | | |
| | Received | 24,00,000 | 3,60,000 |
| | Receivable – 1st April, 2008 | 1,20,000 | 21,000 |
| | – 31st March, 2009 | 1,80,000 | 28,000 |
| | Premium paid | 2,40,000 | – |
| | Payable – 1st April, 2008 | – | 20,000 |
| | – 31st March, 2009 | – | 42,000 |
| II. | Claims : | | |
| | Paid | 16,50,000 | 1,25,000 |
| | Payable – 1st April, 2008 | 95,000 | 13,000 |
| | – 31st March, 2009 | 1,75,000 | 22,000 |
| | Received | – | 1,00,000 |
| | Receivable – 1st April, 2008 | – | 9,000 |
| | – 31st March, 2009 | – | 12,000 |
| III. | Commission : | | |
| | On Insurance accepted | 1,50,000 | 11,000 |
| | On Insurance ceded | – | 14,000 |

Other expenses and income:

Salaries – Rs. 2,60,000; Rent, Rates and Taxes – Rs. 18,000; Printing and Stationery – Rs. 23,000; Indian Income Tax paid – Rs. 2,40,000; Interest, Dividend and Rent received (net) – Rs. 1,15,500; Income Tax deducted at source – Rs. 24,500; Legal Expenses (Inclusive of Rs. 20,000 in connection with the settlement of claims) – Rs. 60,000; Bad Debts – Rs. 5,000; Double Income Tax refund – Rs. 12,000; Profit on Sale of Motor car Rs. 5,000.

Balance of Fund on 1st April, 2008 was Rs. 26,50,000 including Additional Reserve of Rs. 3,25,000. Additional Reserve has to be maintained at 5% of the net premium of the year.

**Financial Statements of Electricity Companies**

15. (a) The Alpha Electricity Company Limited decided to replace one of its old plants with a modern one with a larger capacity. The plant when installed in 1960 cost the company Rs. 30 lakhs, the components of materials, labour and overheads being in



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the ratio of 3 : 2 : 1. It is ascertained that the costs of materials and labour have gone up by 25% and 50% respectively. The proportion of overheads to total costs is expected to remain the same as before.

The cost of the new plant as per improved design is Rs. 75 lakhs and in addition, material recovered from the old plant of a value of Rs. 3,60,000 has been used in the construction of the new plant. The old plant was scrapped and sold for Rs. 9,00,000.

The Accounts of the company are maintained under Double Account system. Indicate how much would be capitalised and the amount that would be charged to revenue. Show the Ledger Accounts.

(b) Alpha Electricity Company provides you the following informations:

| | *Rs. in lakhs* |
|---|---|
| Fixed Assets (Original Cost) | 200.00 |
| Depreciation Reserve on Fixed Assets | 50.00 |
| Customers' contribution towards fixed assets | 1.00 |
| Intangible Assets | 6.00 |
| Intangible Assets written off | 1.00 |
| Average of Current Assets | 20.00 |
| 5% Contingency Reserve Investments | 10.00 |
| 4½% Reserve Fund Investments | 50.00 |
| (a) Loan from Electricity Board | 30.00 |
| (b) Loan from Approved Institution | 10.00 |
| 8% Debentures | 20.00 |
| Development Reserve | 10.00 |
| Security Deposit | 55.00 |
| Tariff and Dividend Control Reserve | 4.00 |
| Licencee's A/c | 1.00 |
| Net profit before interest on Debentures for the year ended 31st March, 2008 | 7.90 |
| Reserve Bank Rate | 5% |

You are required:

(a) Calculate Capital Base, Reasonable Return & Total Surplus if available.

(b) Prepare the Statement showing the Disposal of Profits

(c) Give the necessary journal entries, if any required.



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## Accounts from Incomplete Records

16. The following information relates to the business of Mr. Shiv Kumar, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2009 and a Balance Sheet as on that date:

(a)

| | *Balance as on 31st March, 2008* *Rs.* | *Balance as on 31st March, 2009* *Rs.* |
|---|---|---|
| Building | 3,20,000 | 3,60,000 |
| Furniture | 60,000 | 68,000 |
| Motorcar | 80,000 | 80,000 |
| Stocks | – | 40,000 |
| Bills payable | 28,000 | 16,000 |
| Cash and Bank balances | 1,80,000 | 1,04,000 |
| Sundry Debtors | 1,60,000 | – |
| Bills receivable | 32,000 | 28,000 |
| Sundry Creditors | 1,20,000 | – |

(b) Cash transactions during the year included the following besides certain other items:

| | *Rs.* | | *Rs.* |
|---|---|---|---|
| Sale of old papers and miscellaneous income | 20,000 | Cash purchases | 48,000 |
| | | Payment to creditors | 1,84,000 |
| Miscellaneous Trade expenses (including salaries etc.) | 80,000 | Cash sales | 80,000 |
| Collection from debtors | 2,00,000 | | |

(c) Other information:

(i) Bills receivable drawn during the year amount to Rs. 20,000 and Bills payable accepted Rs. 16,000.

(ii) Some items of old furniture, whose written down value on 31st March, 2008 was Rs. 20,000 was sold on 30th September, 2008 for Rs. 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.

(iii) Of the Debtors, a sum of Rs. 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.



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(iv) Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.

(v) Outstanding salary on 31st March, 2008 was Rs. 8,000 and on 31st March, 2009 was Rs. 10,000 on 31st March, 2008. Profit and Loss Account had a credit balance of Rs. 40,000.

(vi) 20% of total sales and total purchases are to be treated as for cash.

(vii) Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts.

**Cash Flow Statement**

17. MNG Fertilizers presents the following Balance Sheets as at 31.3.2009 and 31.3.2008. You are required to prepare cash flow statement.

| | | | *31.3.2009* | | *31.3.2008* |
|---|---|---|---|---|---|
| Equity share capital | | 8,500 | | 7,000 | |
| General Reserve | | 3,800 | | 4,000 | |
| Profit and Loss Account | | 0 | | 250 | |
| Share Premium Account | | 1,500 | | 750 | |
| Shareholders' Funds | | | 13,800 | | 12,000 |
| Secured Loans | | 4,800 | | 5,000 | |
| Unsecured Loans | | 5,350 | | 4,000 | |
| Loan Funds | | | 10,150 | | 9,000 |
| *Sources* | | | 23,950 | | 21,000 |
| Fixed Assets | | | | | |
| Gross Block | | 22,400 | | 21,000 | |
| *Less*: Accumulated Depreciation | | 3,450 | | 3,200 | |
| Net Block | | | 18,950 | | 17,800 |
| Capital work-in-progress | | | 1,860 | | 0 |
| Investments | | | 1,650 | | 2,320 |
| Current Assets, Loans and Advances | | | | | |
| Inventories | | 2,510 | | 2,600 | |
| Debtors | | 1,090 | | 1,200 | |
| Cash & Bank Balances | | 120 | | 280 | |
| Loans | | 1,700 | | 200 | |
| Advance Tax | | 0 | | 500 | |
| | (A) | 5,420 | | 4,780 | |
| *Less*: Creditors | | 1,050 | | 1,200 | |



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| | | | | | |
|---|---|---|---|---|---|
| Outstanding expenses | | 30 | | 0 | |
| Tax Provision | | 0 | | 500 | |
| Proposed Dividend | | 3,400 | | 2,800 | |
| | (B) | 4,480 | | 4,500 | |
| Net Current Assets | (A) – (B) | | 940 | | 280 |
| Miscellaneous Expenditure | | | 550 | | 600 |
| *Applications* | | | 23,950 | | 21,000 |

Other information:

(1) Fixed assets costing Rs. 4,00,000, accumulated depreciation Rs. 3,00,000 were sold for Rs.1,50,000.

(2) Actual tax liability for 2008-2009 was Rs. 5,00,000.

(3) Loans represent long term loans given to other companies.

(4) Interest on loan funds for 2009-2010 was Rs. 14,21,000 and interest and dividend income were Rs.4,02,000.

(5) Investments costing Rs. 20,00,000 were sold for Rs. 25,00,000.

**Departmental Accounts**

18. A firm had two departments, cloth and readymade clothes. The readymade clothes were made by the firm itself out of cloth supplied by the cloth department at its usual selling price. From the following figures, prepare departmental Trading and Profit and Loss Accounts for the year ended 31st March, 2009 :

| | *Cloth Department Rs.* | *Readymade Clothes Rs.* |
|---|---|---|
| Opening Stock on 1st April, 2008 | 3,00,000 | 50,000 |
| Purchases | 20,00,000 | 15,000 |
| Sales | 22,00,000 | 4,50,000 |
| Transfer to Readymade Clothes Department | 3,00,000 | -- |
| Expenses - Manufacturing | -- | 60,000 |
| Selling | 20,000 | 6,000 |
| Stock on 31st March, 2009 | 2,00,000 | 60,000 |

The stocks in the readymade clothes department may be considered as consisting of 75% cloth and 25% other expenses. The Cloth Department earned gross profit at the rate of 15% in 2008-09. General Expenses of the business as a whole came to Rs. 1,01,000.



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## Underwriting of shares

19. 'X' Ltd., issued 1,00,000 equity shares of Rs.10 each at par. The entire issue was underwritten as follows:

    A – 60,000 shares (Firm underwriting 8,000 shares)

    B- 30,000 shares (Firm underwriting 10,000 shares)

    C- 10,000 shares (Firm underwriting 2,000 shares)

    The total applications including firm underwriting were for 80,000 shares.

    The marked applications were as follows:

    A- 20,000 shares; B- 14,000 shares; C-6,000 shares.

    The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten. Determine the liability of each underwriter.

## Short Notes

20. (a) Write short note on Treasury system and the functions entrusted to Treasury in government accounting.

    (b) Describe what records are required for the compilation of accounting information for agricultural farm.

21. Write short notes on the following:

    (a) Preferential Creditors.

    (b) Liquidity Norms of Banking Companies under Section 24 of Banking Regulation Act.

    (c) Reasonable Return in respect of Electricity Supply Companies.

    (d) Foreign Branches.

    (e) Debtors Method for accounting of Hire Purchase Transactions.

    (f) Profit and Loss Appropriation Account.

    (g) Firm underwriting.

22. Theory Questions Based on Accounting Standards

    (a) Is any specific disclosure under AS 1 required for a company in liquidation?

    (b) Inventories are usually written down to NRV on an item-by-item basis. Comment.

    (c) Discuss the accounting treatment when the depreciable assets are revalued. The Notes on Accounts of Devi Ltd. reveals that "No depreciation has been provided during the year on fixed asset pursuant to an upward revaluation of fixed assets carried out in the current year". State whether the above viewpoint is correct.

    (d) What is the basis for recognition of revenue by way of Interest, Royalties and Dividends?



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(e) Distinguish between Integral Foreign Operation (IFO) and Non-Integral Foreign Operation (NFO).

(f) Presentation of government grants related to specific fixed assets.

(g) When can an enterprise commence to capitalize the borrowing costs? What are the conditions to be satisfied for commencement of capitalization?

23. (a) Can internally generated brands, publishing titles and other similar items be recognized as intangible assets?

(b) What are the aspects to be considered for the measurement of a Provision?

(c) How are intra enterprise transactions treated when preparing Segment Reports?

(d) P Ltd. owns 70 per cent of the voting power of Q Ltd. Q Ltd. in turn owns 50 per cent of the voting interest in R Ltd. Further, P Ltd. also directly owns 15 per cent of the voting interest in R Ltd. Would P Ltd. be deemed to have control over R Ltd. or would it only be considered as exercising significant influence?

(e) Classify the following as "Timing Difference" and "Permanent Difference".

(i) Interest on loans payable to Scheduled Banks not paid during current year but accounted as an expenditure in the books.

(ii) Difference in Depreciation rates as per Income Tax and as per Books.

(iii) Unabsorbed losses.

(iv) Revaluation Reserve.

(f) Disclosure requirements as regards the investor, where the associate has contingent liabilities.

(g) Circumstances under which a lease can be reckoned as non-cancellable.

(h) Explain "Theoretical ex-rights fair value per share" in context of AS 20-Earnings Per Share.

**Practical Questions Based on Accounting Standards**

24. (a) In order to value the inventory of finished goods, HR Ltd. has adopted the standard cost or raw material, labour and overheads. Income tax officer wants to know the method, as per AS-2, for the valuation of raw material.

(b) A limited company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2008-2009.

Subsequently on a review of the credit period allowed and financial capacity of the customers, the company decided to increase the provision to 8% on debtors as on 31.3.2009. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard can this revision be considered as an extraordinary item or prior period item?



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(c) X Co. Ltd. charged depreciation on its asset on SLM basis. For the year ended 31.3.2009 it changed to WDV basis. The impact of the change, when computed from the date of the asset coming to use, amounts to Rs. 20 lakhs being additional charge.

Decide how it must be disclosed in Profit and loss account. Also, discuss, when such changes in method of depreciation can be adopted by an enterprise as per AS 6.

(d) X Limited has recognized Rs. 10 lakhs on accrual basis income from dividend on units of mutual funds of the face value of Rs. 50 lakhs held by it as at the end of the financial year 31st March, 2009. The dividends on mutual funds were declared at the rate of 20% on 15th June, 2009. The dividend was proposed on 10th April, 2009 by the declaring company. Whether the treatment is as per the relevant Accounting Standard? You are asked to answer with reference to provisions of Accounting Standard.

(e) Soft and Hardwares Ltd. are finalizing their annual accounts as on 31st March. A few elements in their Profit and loss Account are furnished below:

| | | *Amount Rs. in lakhs* |
|---|---|---|
| (a) | Cost of goods sold (includes loss on sale of assets) | 2,740 |
| (b) | Profit on sale of property | 200 |
| (c) | PBT | 300 |

Some of the assets, revalued in earlier years, have been sold by the company now, for Rs. 100 lacs (WDV Rs. 250 lacs). Revaluation reserve corresponding to these assets stood at Rs. 200 lacs, now brought to Profit and Loss Account.

Comment on this treatment, and advise action, if any, with reference to relevant accounting standard.

(f) X Limited sold to Y Limited goods having a sales value of Rs. 25 lakhs during the financial year ended 31.03.2004. Mr. A, the Managing Director and Chief Executive of X Limited owns nearly 100 percent of the capital of Y Limited. The sales were made to Y Limited at the normal selling price of X Limited. The Chief Accountant of X Limited does not consider that these sales should be treated differently from any other sale made by the company despite being made to a controlled company, because the sales were made at normal and, that too, at arms' length prices.

Discuss the above issue from the view point of AS 18.

25. (a) Pankaj Ltd. is a company engaged in manufacture of Nuclear Power Stations. The Company usually resorts to long term Foreign Currency borrowings for its fund requirements. The Company had on 1st April, 2005 borrowed U.S. $100 million from Global Fund Consortium based in Washington, USA. The funds were used by



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Pankaj Ltd. for purposes OTHER THAN acquiring 'Depreciable Capital Assets'. The loan carries an interest rate of 3 per cent on reducing balance and is repayable in two instalments, the first one due on 1st April, 2010 and the next on 1st April, 2012. The interest due on the loan has been paid in full on 31st March of each year. The exchange rate on the date of borrowing was 1 U.S. $ = INR 40.

The accounting treatment followed by the Company for the subsequent three years with exchange rates prevailing on those dates were as under:

| Year ended | Exchange Rate | Accounting Treatment |
|---|---|---|
| 31st March, 2006 | 1 US $ = 41 | Forex Loss of Rs.10 crore charged to Profit and Loss account; |
| 31st March, 2007 | 1 US $ = 39 | Forex gain of Rs.20 crore recognised in Profit and Loss Account; |
| 31st March, 2008 | 1 US $ = 48 | Forex Loss of Rs.90 crore charged to Profit and Loss account; |

**Note:** Interest payment was charged to Profit and Loss account of each year at transaction value on payment dates.

Pankaj Ltd. is in the process of finalising its accounts for the year ended 31st March, 2009 and understands that AS 11 has been amended and opts to follow the Companies (Accounting Standards) Amendment Rules, 2009.

(a) You are required to show treatment of the Forex Losses/gains in the light of the above amendment to AS 11 for the years 2005-06; 06-07; 07-08 & 08-09. The exchange rate to 1 US Dollar on 31st March, 2009 is Rs.50. Assuming that the rates of Exchange on 31st March, 2010 and 31st March, 2011 will be Rs.51 and Rs.52 respectively the accounting for the Forex Losses/gains may also be shown for these years also.

(b) What are the disclosure requirements to be complied with by Pankaj Ltd. as a result of having opted to follow the amendment in the Companies (Acco8unting Standard) Rules, 2006.

(c) Would your answer to (a) above be different of Pankaj Ltd. was not a Company and were a Co-operative Society.

(b) Explain the treatment of the following:

(i) A firm acquired a fixed asset for Rs. 250 lakhs on which the government grant received was 40%.

(ii) Capital subsidy received from the central government for setting up a plant in the notified backward region. Cost of the plant Rs. 300 lakhs, subsidy received Rs. 100 lakhs.



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(iii) Rs. 50 lakhs received from the state government for the setting up of water-treatment plant.

(iv) Rs. 25 lakhs received from the local authority for providing medical facilities to the employees.

(c) Bharat Ltd. wants to re-classify its investments in accordance with AS 13. Decide on the amount of transfer, based on the following information:

1. A portion of Current Investments purchased for Rs. 20 lakhs, to be re-classified as Long Term Investments, as the Company has decided to retain them. The market value as on the date of Balance Sheet was Rs. 25 lakhs.

2. Another portion of current investments purchased for Rs. 15 lakhs, to be re-classified as long term investments. The market value of these investments as on the date of balance sheet was Rs. 6.5 lakhs.

3. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these were Rs. 18 lakhs but had been written down to Rs. 12 lakhs to recognise permanent decline, as per AS 13.

(d) Paras Ltd. had the following borrowings during a year in respect of capital expansion.

| Plant | Cost of Asset Rs. | Remarks |
|---|---|---|
| Plant P | 100 lakhs | No specific borrowings |
| Plant Q | 125 lakhs | Bank loan of Rs. 65 lakhs at 10% |
| Plant R | 175 lakhs | 9% Debentures of Rs. 125 lakhs were issued. |

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (1) Rs. 100 lakhs at 10% from Corporation Bank and (2) Rs. 110 lakhs at 11.50% from State Bank of India, to meet its capital expansion requirements. Determine the amount of borrowing costs to be capitalized in each of the above Plants, as per AS 16.

(e) Should appropriation to mandatory reserves be excluded from net profit attributable to equity shareholders?

Kashyap Ltd. is engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered into with its debentureholders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the Reserve constitutes at least half the value of such debentures. As such, appropriations are not available for distribution to the equity shareholders. Kashyap Ltd. has excluded this from the numerator in the computation of basis EPS. Is this treatment correct?



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(f) Can internally generated brands, publishing titles and other similar items be recognized as intangible assets?

(g) At the end of the financial year ending on 31st December, 2005, 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.

## SUGGESTED ANSWERS/HINTS

**1. Profit and Loss Account for 9 months ended on 30th September, 2009**

| | *Particulars* | *W.N.* | *Total (Rs.)* | *Pre-incorporation 1.1.2009 to 30.4.2009* | *Post-incorporation 1.5.2009 to 30.9.2009* | | *Particulars* | *W.N.* | *Total Rs.* | *Pre-incorpor--ation 1.1.2009 to 30.4.2009* | *Post-incorporation 1.5.2009 to 30.9.2009* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| To | General expenses | 2 | 14,220 | 6,320 | 7,900 | By | Gross profit | 1 | 56,000 | 16,000 | 40,000 |
| To | Director's fees | 3 | 5,000 | - | 5,000 | | | | | | |
| To | Formation exp. | 4 | 1,500 | - | 1,500 | | | | | | |
| To | Rent | 5 | 1,350 | 400 | 950 | | | | | | |
| To | Manager's salary | 6 | 2,000 | 2,000 | - | | | | | | |
| To | Net profit- | | 31,930 | - | - | | | | | | |
| | -Capital Reserve | | - | 7,280 | - | | | | | | |
| | -P&L Appropriation | | - | - | 24,650 | | | | | | |
| | | | 56,000 | 16,000 | 40,000 | | | | 56,000 | 16,000 | 40,000 |



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**Working Notes:**

(1) Let the average monthly sales of first four months be Rs.100. Then the average monthly sales of next five months will be Rs.200.

Total sales of first four months = Rs.100 $\times 4$ = Rs.400 and that of next five months = Rs.200 $\times 5$ = Rs.1,000. The ratio of sales = 400:1000 or 2:5

The gross profit is apportioned on the basis of sales, i.e., 2:5. Therefore, the gross profit is apportioned as:

$$Pre - \frac{Rs.56,000}{7} \times 2 = Rs.16,000; \qquad Post - \frac{Rs.56,000}{7} \times 5 = Rs.40,000.$$

(2) General expenses accrue evenly throughout the period and are, therefore, divided on the basis of time.

$$Pre - \frac{Rs.14,220}{9} \times 4 = Rs.6,320; \qquad Post - \frac{Rs.14,220}{9} \times 5 = Rs.7,900.$$

(3) Directors' fees payable @ Rs.1,000 per month. It is to be found in company only. So Rs.5,000 (5 × Rs.1,000) must naturally be shown in post-period incorporation period.

(4) Formation expenses though incurred in point of time, before the company was in incorporated, are charge against the post incorporation profit.

(5) Rent for first four months = Rs.100 × 4 = Rs.400. For next five months = (Rs.100 × 2) + (Rs.250 × 3) = Rs.950.

(6) Salary to manager is related to pre-incorporation period only. Salary to be charged = Rs.500 × 4 = Rs.2,000.

**2. Statement of Affairs as on 31.3.2009**

| Rs. | | Rs. | Rs. | | Rs. | Rs. |
|---|---|---|---|---|---|---|
| 1,80,000 | Unsecured creditors As per list A | | 1,80,000 | Property as per list E | | |
| | | | | Cash in hand | 10,000 | 10,000 |
| 1,00,000 | Creditors fully secured as per list B | 1,00,000 | | Stock in hand | 15,000 | 10,000 |
| | | | | Book debts as per list F | | |
| | Estimated value of | | | Good | 80,000 | 80,000 |
| | Security | 1,00,000 | Nil | Bad | 10,000 | Nil |
| Nil | Creditors partly secured as per list C | | Nil | | | 1,00,000 |
| | | | | Deduct creditors for | | |
| 8,000 | Creditors for taxes, wages etc. being payable in full as per list D | 8,000 | | wages as per list D | | 8,000 |
| | | | | Deficiency as | | 92,000 |
| | Deducted as per contra | 8,000 | | explained in list H | | 88,000 |
| 2,88,000 | | | 1,80,000 | | | 1,80,000 |



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## Deficiency Account (List H)

| | Rs. | | Rs. |
|---|---|---|---|
| Excess of assets over liabilities on 1.7.2003 | 2,00,000 | Net loss arising from carrying on of business from 1.4.2006 to the date of adjudication (W.N. 2) | 1,55,000 |
| Net profit upto 31.3.2006 | 1,40,000 | Loss on realisation of | |
| Deficiency | 88,000 | Building | 60,000 |
| | | Stock in trade | 5,000 |
| | | Debtors | 10,000 |
| | | Drawings for household expenses since 1.4.2006 | 1,98,000 |
| | 4,28,000 | | 4,28,000 |

**Working Notes:**

(1) The unsecured creditors in this case will be as follows:

| | Rs. |
|---|---|
| Sundry Creditors | 1,50,000 |
| Godown Rent | 5,000 |
| Mrs. Ram loan | 25,000 |
| (Since loan was given out of her own sources) | 1,80,000 |

(2) Since accounts were not prepared for the period of 1.4.2006 to 31.3.2009 it is necessary to ascertain the profit or loss incurred in these three years. Hence, the following trial balance has been prepared with the given book figures.

### Trial Balance

| *Dr.* | | | | *Cr.* |
|---|---|---|---|---|
| | | Rs. | | | Rs. |
| Building | | 1,60,000 | Capital introduced | 2,00,000 | |
| Book debt | | | *Add:* Profit upto 30.3.2006 | 1,40,000 | |
| Good | 80,000 | | | 3,40,000 | |
| Bad | 10,000 | 90,000 | | | |
| Stock in trade | | 15,000 | *Less:* Drawings for (Rs. 5,500 × 36 months) | 1,98,000 | 1,42,000 |
| Cash in hand/bank | | 10,000 | Creditors | | 1,50,000 |
| Loss (balancing figure) | | 1,55,000 | Mortgage on building | | 1,00,000 |
| | | | Godown rent | | 5,000 |
| | | | Wages due | | 8,000 |
| | | | Mrs. Ram's loan | | 25,000 |
| | | 4,30,000 | | | 4,30,000 |



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**3.** **Investment Account [Equity Shares in A Ltd.]**

**for the year ending on 31st December 2009**

| *Dr.* | | | | | | | | | *Cr.* |
|---|---|---|---|---|---|---|---|---|---|
| *Date* | | *Particulars* | *No.* | *Amount Rs.* | *Date* | | *Particulars* | *No.* | *Amount Rs.* |
| 01.04.09 | To | Balance b/d | 2,500 | 37,500 | 30.09.09 | By | Bank (Sale of rights) | | 1,000 |
| 20.06.09 | To | Bank | 500 | 8,000 | 31.10.09 | By | Bank (dividend on shares acquired on 2nd June) | | 1,000 |
| 16.08.09 | To | Bonus | 500 | | 15.11.09 | By | Bank (Sale of shares | 2,500 | 37,500 |
| 30.09.09 | To | Bank (Rights shares) | 1,000 | 15,000 | 31.12.09 | By | Balance c/d | 2,000 | 26,000 |
| 15.11.09 | To | P&L A/c profit on sale of shares | | 5,000 | | | | | |
| | | | 4,500 | 65,500 | | | | 4,500 | 65,500 |

**Working Notes:**

(i) Bonus Shares $\left[\frac{2{,}500+500}{6}\right]=500\,\text{shares.}$

(ii) Rights shares $\left[\frac{2{,}500+500+500}{7}\times 3\right]$ = 1,500 shares

(iii) Rights shares renounced = [1,500 × $\frac{1}{3}$] = 500 shares

(iv) Dividend received $[2{,}500\times 10\times 20\%]=$Rs.5,000.

Dividend on share purchased on 20th June = 500 × 10 × 20% = Rs.1,000 is adjusted to Investment Account.

(v) Cost of Shares on 31st December

$$\left[\frac{(37{,}500+8{,}000+15{,}000-1{,}000-1{,}000)}{4{,}500}\right]=\text{Rs.}13\text{ per share}$$

2,000 share x Rs.13 = Rs.26,000

(vi) Profit on sale of shares = 37,500 – (2,500 x 13) = Rs.5,000.



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**4.** **Trading Account for the year ended 31st March, 2009**

| *Dr.* | | | | | *Cr.* |
|---|---|---|---|---|---|
| | | *Rs.* | | | *Rs.* |
| To | Opening stock | 9,62,200 | By | Sales | 52,00,000 |
| To | Purchase | 45,25,000 | BY | Closing stock | 13,27,200 |
| To | Gross profit | 10,40,000 | | | |
| | | 65,27,200 | | | 65,27,200 |

Rate of gross profit to sales = (10,40,000 / 52,00,000) x 100 = 20%

Period from 1st April 2009 to 18th August 2009 has 140 days or 20 weeks.

Hence, amount of defalcation = Rs. 2,000 x 20 = Rs. 40,000

**Memorandum Trading Account from 1st April, 2009 to 22nd January, 2010**

| *Dr.* | | | | | | *Cr.* |
|---|---|---|---|---|---|---|
| | | | *Rs.* | | | *Rs.* |
| To | Opening stock | | 13,27,200 | By | Sales | 49,17,000 |
| To | Purchase | 34,82,700 | | By | Unrecorded cash sales | |
| | *Less*: Cost of goods used for advertising | 1,00,000 | 33,82,700 | | - Defalcation | 40,000 |
| To | Gross profit - 20% of recorded as well as unrecorded sales | | 9,91,400 | By | Stock on 22nd January, 2010 (Bal. Fig.) | 7,44,300 |
| | | | 57,01,300 | | | 57,01,300 |

Stock in hand on the date of fire = Rs. 7,44,300

**5.** For calculating managerial remuneration, first of all, the profit as per Section 349 have to be calculated in the following manner:

**Calculation of Profits for the Purpose of Managerial Remuneration**

| *Particulars* | *Rs.* | *Rs.* |
|---|---|---|
| Net Profit | | 2,00,000 |
| Add: Depreciation (to be treated separately) | 40,000 | |
| Preliminary expenses | 10,000 | |
| Tax provision | 3,10,000 | |
| Bonus (to be treated separately) | 15,000 | |
| Provision for doubtful debts | 9,000 | |
| Scientific research expenditure (W.N.1) | 20,000 | |
| Managing Director's remuneration | 30,000 | 4,34,000 |
| | | 6,34,000 |



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| | | |
|---|---|---|
| *Less*: Depreciation allowable under Schedule XIV to the Companies Act | 35,000 | |
| Bonus liability as per Payment of Bonus Act, 1965 | 18,000 | |
| Capital profit on sale of fixed assets (W.N.2) | 6,500 | 59,500 |
| Profit under section 349 | | 5,74,500 |

**Calculation of Managerial Remuneration**

| *Particulars* | *Rs.* |
|---|---|
| Remuneration payable to Managing Director @ 5% of Rs.5,74,500 | 28,725 |
| Remuneration already paid to Managing Director | 30,000 |
| Excess amount paid | 1,275 |

**Working Notes:**

(1) Cost of setting up new machinery for scientific research is a capital expenditure. Therefore, it will not be treated as allowable expenses for computing managerial remuneration. At the time of calculation of profit, it was deducted from Net Profit. So, it is to be added back.

(2) Calculation of Capital Profit on Sale of Fixed Assets

| *Particulars* | *Rs.* |
|---|---|
| Sale Price (W.D.V. + Profit on sale, i.e., Rs.11,000 + Rs.15,500) | 26,500 |
| *Less*:Cost price (original) | 20,000 |
| Capital Profit | 6,500 |

**6.** **Perfect Investment Pvt. Ltd.**

**Hire Purchase Trading Account**

| *Dr.* | | | *Rs.* | | *Cr.* *Rs.* |
|---|---|---|---|---|---|
| To | Opening Balance: | | | By Bank | 80,00,000 |
| | H.P. Stock | 2,40,000 | | By Stock reserve | 40,000 |
| | H.P. Debtors | 60,000 | 3,00,000 | By Trucks send on H.P. | 14,08,000 |
| To | Trucks send on H.P. | | | By Closing Balance: | |
| | Purchased during the year | 80,00,000 | | H.P. Stock | 12,00,000 |
| | *Less*: Other sales | 8,00,000 | | H.P. Debtors | 1,00,000 |



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| | | | | |
|---|---|---|---|---|
| | | 72,00,000 | | |
| | *Less*: Closing Stock | 1,60,000 | | |
| | | 70,40,000 | | |
| | *Add:* Loading | 14,08,000 | 84,48,000 | |
| To | Body Building Charges | | 4,00,000 | |
| To | Bank (Interest paid) | | 80,000 | |
| To | Stock reserve (20% on cost) | | 2,00,000 | |
| To | Profit and Loss A/c | | 13,20,000 | |
| | | | 1,07,48,000 | 1,07,48,000 |

**Working Notes:**

Value of H.P. Stock:

| | | |
|---|---|---|
| (1) | Cost of trucks in respect of H.P. agreement subsisting as on 31.3.2009 | 40,00,000 |
| (2) | H.P. price in respect thereof | 48,00,000 |
| (3) | Instalments not due (48 lakhs less 36 lakhs) | 12,00,000 |

**7. Journal Entries**

| 2009 | | | Rs. | Rs. |
|---|---|---|---|---|
| Jan. 1 | 14% Debentures A/c | Dr. | 12,00,000 | |
| | Premium on Redemption of Debentures A/c | Dr. | 24,000 | |
| | To Debentures holders A/c | | | 12,24,000 |
| | (Being amount payable on redemption of Rs.12,00,000 debentures at a premium of 2%) | | | |
| | Debenture Redemption Reserve A/c | Dr. | 24,000 | |
| | To Premium on Redemption of Debentures A/c | | | 24,000 |
| | (Being premium on redemption adjusted against Debenture Redemption Reserve A/c) | | | |
| | Debenture holders A/c $\left(12,24,000 \times \frac{75}{100}\right)$ | Dr. | 9,18,000 | |
| | To Equity Share Capital A/c (72,000 × 10) | | | 7,20,000 |
| | To Premium on Issue of Shares A/c (72,000 x 2.75) | | | 1,98,000 |
| | (Being issue of 72,000 shares of Rs.10 each at a premium of Rs.2.75 per share to 75% debenture holders who exercised conversion option) | | | |
| | Debenture holders A/c | Dr. | 3,06,000 | |
| | To Bank A/c | | | 3,06,000 |
| | (Being cash payment to 25% debenture-holders) | | | |



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| | | | |
|---|---|---|---|
| Debenture Redemption Reserve A/c | Dr. | 9,42,000 | |
| To General Reserve A/c | | | 9,42,000 |
| (Being balance of Debenture Redemption Reserve A/c transferred on 100% redemption of debentures) | | | |
| Investment A/c | Dr. | 6,60,000 | |
| To Debenture Redemption Reserve Investment A/c | | | 6,60,000 |
| (Being balance of Debenture Redemption Reserve Investment transferred to Investment (General) A/c) | | | |

**Working Notes:**

(1) For every Rs.100 debenture, amount payable on redemption including premium is — Rs.102

*Less:* Face value of 8 shares of Rs.10 each to be issued for redemption of each debenture (8 × Rs.10) — Rs.80

Premium on issue of 8 shares — Rs.22

Therefore, premium on issue of each share $\left(\frac{\text{Rs.}22}{8}\right)$ — Rs.2.75

(2) Shares to be issued for conversion of 75% Debentures into shares @ 8 shares for every Rs.100 Debenture

i.e. Rs.12,00,000 $\times \frac{75}{100} \times \frac{8}{100} = 72{,}000$ shares

(3) Cash payment for remaining 25% debenture holders who exercised the option of cash

i.e., Rs.12,00,000 $\times \frac{25}{100} \times \frac{102}{100} =$ Rs.3,06,000

(4) Face value of investment to be sold to realize Rs.3,06,000 will be Rs.3,40,000

$\left(\text{i.e. Rs.} \frac{10{,}00{,}000}{9{,}00{,}000} \times \text{Rs.}3{,}06{,}000\right)$

Loss on sale of investment = 3,40,000 – 3,06,000 = 34,000

(5) Debenture Redemption Reserve transferred to General Reserve:

10,00,000 – 24,000 – 34,000 = Rs. 9,42,000

**8.**

**(a) Computation of Intrinsic Value of Shares of A Co. Ltd. and B Co. Ltd.** — *Rs.*

(i) Valuation of shares of A Co. Ltd.

Share Capital — 10,00,000



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| | | Rs. |
|---|---|---|
| Capital Reserve | | 2,00,000 |
| General Reserve | | 70,000 |
| | | 12,70,000 |
| *Less:* Goodwill being valueless | 80,000 | |
| Arrear of Depreciation | 40,000 | 1,20,000 |
| Value of Net Assets | | 11,50,000 |
| No. of Shares | | 10,000 |
| Intrinsic value per share | | 115 |

(ii) Valuation of Shares of B Co. Ltd.

| | *Rs.* |
|---|---|
| Share Capital | 8,00,000 |
| General Reserve | 8,00,000 |
| | 16,00,000 |
| No. of Shares | 80,000 |
| Value per share | Rs. 20 |

**Determination of Composition of Purchase Consideration**

A holder of two shares in A Co. Ltd., will receive 10 shares in B Co. Ltd. plus cash for the balance. The intrinsic value of two shares in A Co. Ltd., is Rs.230 and that of 10 shares B Co. Ltd., is Rs.200. Therefore, for each lot of two shares of A Co. Ltd. a shareholder will receive Rs.30 in cash (Rs.230 – 200).

B Co. Ltd., will therefore issue 50,000 shares of Rs.10 each at the agreed value of Rs.20 each crediting Rs.5,00,000 to Capital Account and Rs.5,00,000 to Securities Premium Account.

Further, B Co. Ltd., will pay cash Rs.1,50,000 (i.e., 5,000 $\times$30) for distribution amongst shareholders of A Co. Ltd.

**(b) Balance Sheet of B Co. Ltd. (after absorption) as on 31st October, 2009**

| *Liabilities* | *Rs.* | *Assets* | | *Rs.* |
|---|---|---|---|---|
| Share Capital Authorised: | | Fixed Assets | 16,00,000 | |
| 2,00,000 Shares of Rs.10 each | 2,00,000 | Addition on acquisition | 7,60,000 | 23,60,000 |
| *Issued & subscribed* | | *Investments Current Assets Loans and Advances* | | |
| 1,30,000 Shares of Rs.10 each fully paid | 13,00,000 | Other Current assets (9,00,000 + 6,60,000) | | 15,60,000 |
| (Issued for consideration other | | Cash at Bank (2,00,000 – 1,50,000) | | 50,000 |



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| | | |
|---|---|---|
| than cash: 50,000 Shares of Rs.10 each fully paid) | | |
| *Reserve & Surplus* | | |
| Securities Premium | 5,00,000 | |
| General Reserve | 8,00,000 | |
| Secured Loan | 5,00,000 | |
| Unsecured Loans | 2,00,000 | |
| Current Liabilities and Provisions | | |
| Sundry Creditors | 6,70,000 | |
| | 39,70,000 | 39,70,000 |

**9.** **Trading and Profit and Loss A/c**

**for the year ended 30th September, 2009**

| | | Rs. | Rs. |
|---|---|---|---|
| Sales | | | 96,000 |
| *Less:* | Cost of goods sold: | | |
| | Opening Stock | 12,400 | |
| | Purchase | 62,000 | |
| | | 74,400 | |
| | *Less:* Closing stock | 14,200 | 60,200 |
| *Less:* | Wages | | 14,600 |
| Gross Profit | | | 21,200 |

| | *Half year to 31st March 2009* | | *Half year to 30th September 2009* | |
|---|---|---|---|---|
| | *Rs.* | *Rs.* | *Rs.* | *Rs.* |
| Gross profit allocated on time basis | | 10,600 | | 10,600 |
| *Less:* Expenses | | | | |
| Salaries | 3,450 | | 2,250 | |
| Trade expenses | 765 | | 1,015 | |
| Rent and rates | 500 | | 500 | |
| Bad debts | 600 | | - | |
| Provision for doubtful debts | - | | 230 | |
| Depreciation: | | | | |



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| | | | | |
|---|---|---|---|---|
| Plant and machinery | 700 | | 700 | |
| Motor vehicles | 775 | | 600 | |
| Interest on loan | - | | 540 | |
| | | 6,790 | | 5,835 |
| | | 3,810 | | 4,765 |
| Appropriation of profits: | | | | |
| Interest on Capital: | | | | |
| Glad | 240 | | | |
| Happy | 180 | | 84 | |
| Joy | | | 96 | |
| | | 420 | | 180 |
| Remaining profits | | | | |
| Glad | 2,260 | | | |
| Happy | 1,130 | | 2,751 | |
| Joy | | 3,390 | 1,834 | 4,585 |
| | | 3,810 | | 4,765 |

**(b)** **Partners' Capital Accounts**

| | | *Glad* | *Happy* | *Joy* | | | *Glad* | *Happy* | *Joy* |
|---|---|---|---|---|---|---|---|---|---|
| | | *Rs.* | *Rs.* | *Rs.* | | | *Rs.* | *Rs.* | *Rs.* |
| To | Glad | | 3,200 | 4,800 | By | Balance b/d | 8,000 | 6,000 | |
| To | Glad's Loan A/c | 16,000 | | | By | Cash | | | 3,000 |
| To | Balance c/d | | 2,800 | 3,200 | By | Happy | 3,200 | | |
| | | | | | By | Joy | 4,800 | | |
| | | | | | By | Cash | | | 5,000 |
| | | 16,000 | 6,000 | 8,000 | | | 16,000 | 6,000 | 8,000 |

**Partners' Current Accounts**

| | *Glad* | *Happy* | *Joy* | | *Glad* | *Happy* | *Joy* |
|---|---|---|---|---|---|---|---|
| | *Rs.* | *Rs.* | *Rs.* | | *Rs.* | *Rs.* | *Rs.* |
| To Car taken over | 600 | - | - | By Balance b/d | 2,400 | 1,600 | |



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| | | | | | | | |
|---|---|---|---|---|---|---|---|
| To Drawings | 1,800 | 2,400 | 900 | By Interest on capital | 240 | 264 | 96 |
| To Transfer to loan account | 2,500 | | | By Profit | 2,260 | 3,881 | 1,834 |
| To Balance c/d | ____ | 3,345 | 1,030 | | ____ | ____ | ____ |
| | 4,900 | 5,745 | 1,930 | | 4,900 | 5,745 | 1,930 |

**(c)**

**Balance Sheet as at 30th September 2009**

| *Assets* | *Cost* | *Depreciation* | *Net* |
|---|---|---|---|
| | *Rs.* | *Rs.* | *Rs.* |
| Fixed assets: | | | |
| Plant and machinery | 14,000 | 4,200 | 9,800 |
| Motor vehicles | 4,800 | 3,975 | 825 |
| | 18,800 | 8,175 | 10,625 |
| Current assets: | | | |
| Stock | | 14,200 | |
| Debtors | | 4,370 | |
| Prepaid Rent | | 400 | |
| Balance at bank | | 1,200 | |
| | | 20,170 | |
| *Less*: Current liabilities | | | |
| Outstanding Trade expenses | | 180 | |
| Creditors | | 6,200 | |
| Net current assets | | | 13,790 |
| | | | 24,415 |
| Financed by | *Happy* | *Joy* | *Total* |
| | *Rs.* | *Rs.* | *Rs.* |
| Capital accounts | 2,800 | 3,200 | 6,000 |
| Current accounts | 3,345 | 1,030 | 4,375 |
| Loan – Glad | | | 14,040 |
| | | | 24,415 |

**Working Notes**

| | *Rs.* | *Rs.* |
|---|---|---|
| 1. **Salaries** | | |
| Total as per trial balance | | 10,800 |
| *Less:* Partners' Drawings - Glad | 1,800 | |



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| | | |
|---|---|---|
| Happy | 2,400 | |
| Joy | 900 | 5,100 |
| | | 5,700 |

**Allocation**

| | |
|---|---|
| Half-year to 31st March, 2009: | |
| ½ × (Rs.5,700 – Rs.1,200) + Joy's salary of Rs.1,200 | 3,450 |
| Half-year to 30 September 2009: | |
| ½ × (Rs.5,700 – Rs.1,200) | 2,250 |
| | 5,700 |

2. **Trade Expenses**

| | |
|---|---|
| Total as per trial balance | 1,600 |
| *Add:* Accrual | 180 |
| | 1,780 |

**Allocation**

| | |
|---|---|
| Half-year to 31 March 2009: | |
| ½ × (Rs.1,780 – Rs.250) | 765 |
| Half-year to 30th September 2009: | |
| ½ × (Rs.1,780 – Rs.250) + professional charges of Rs.250 | 1,015 |
| | 1,780 |

3. **Rent and rates**

| | |
|---|---|
| Total as per trial balance | 1,400 |
| *Less:* Rent paid in advance | 400 |
| Allocation: 50 : 50 | 1,000 |

4. **Depreciation**

Plant and machinery:

10% per annum on Rs.14,000 – Rs.1,400; Allocated 50:50

Motor vehicles:

Half-year to 31st March 2009: 25% per annum on Rs.6,200 = Rs.775

Half-year to 30th September 2009: 25% per annum on Rs.4,800 = Rs.600

5. **Glad's Loan Account**

| | *Rs.* | | *Rs.* |
|---|---|---|---|
| To Cash from Joy | 5,000 | By Transfer from | 16,000 |



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| | | | | |
|---|---|---|---|---|
| | | | capital account | |
| To Balance c/d | 14,040 | By | Transfer from current account | 2,500 |
| | | By | Profit and loss account: | |
| | | | Interest at 8% p.a. on Rs.13,500 for six months | 540 |
| | 19,040 | | | 19,040 |
| | | | By Balance b/d | 14,040 |

6. **Car taken over by Glad**

| | Rs. | Rs. |
|---|---|---|
| Cost | | 1,400 |
| Depreciation – to 30th September 2009 | 625 | |
| To 31st March, 2009 | 175 | 800 |
| | | 600 |

7. **Motor vehicles**

| | *Cost* | *Depreciation* |
|---|---|---|
| | *Rs.* | *Rs.* |
| Per trial balance | 6,200 | 3,400 |
| *Less:* Vehicle sold | 1,400 | 800 |
| | 4,800 | 2,600 |
| Charge for year to 30th September 2009 | | 1,375 |
| | | 3,975 |

8. **Debtors**

| | *Rs.* |
|---|---|
| Balance per trial balance | 4,600 |
| *Less*: Provision for bad debts | 230 |
| | 4,370 |

**10.**

**Memorandum Branch Stock Account**

| *Dr.* | | *Rs* | *Rs.* | | | *Cr.* *Rs.* |
|---|---|---|---|---|---|---|
| To | Goods sent to Brach: | | | By | Cash Sales | 12,50,700 |
| | Cost | 28,08,400 | | By | Credit Sales | 17,74,300 |
| | *Add*: Loading | | | By | Abnormal Loss | |



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| | | | | | | |
|---|---|---|---|---|---|---|
| | @ 25% | 7,02,100 | 35,10,500 | | | |
| To | Returns from Debtors | | 10,000 | | - Spoiled cloth | 5,000 |
| | | | | By | Stock on 31st March, 2009 | |
| | | | | | - Balancing figure | 4,90,500 |
| | | | 35,20,500 | | | 35,20,500 |

*Dr.* **Memorandum Branch Debtors Account** *Cr.*

| | | *Rs.* | | | *Rs.* |
|---|---|---|---|---|---|
| To | Credit Sales | 17,74,300 | By | Cash collected | 15,70,000 |
| | | | By | Discount allowed | 15,700 |
| | | | By | Returns | 10,000 |
| | | | By | Debtors on 31st March, 2009 | 1,78,600 |
| | | 17,74,300 | | | 17,74,300 |

*Dr.* **Branch Account** *Cr.*

| | | *Rs.* | *Rs.* | | | *Rs.* | *Rs.* |
|---|---|---|---|---|---|---|---|
| To | Goods Sent to Branch Account | | 35,10,500 | By | Bank | | |
| To | Bank | | | | -Cash sales | 12,50,700 | |
| | -Rent | 72,000 | | | -From debtors | 15,70,000 | 28,20,700 |
| | -Salaries | 1,80,000 | | By | Goods Sent to Branch Account -Loading | | 7,02,100 |
| | -Other expenses | 35,000 | 2,87,000 | By | Abnormal Loss<br>-Cost of spoiled cloth | | 4,000 |
| To | Branch Stock Reserve | | 98,100 | By | Branch Stock | | 4,90,500 |
| To | Profit and Loss Account | | | By | Branch Debtors | | 1,78,600 |
| | -Transfer of profit | | 3,00,300 | | | | |
| | | | 41,95,900 | | | | 41,95,900 |

**11.**

| | | | | |
|---|---|---|---|---|
| Year 1 | Employee compensation expense A/c | Dr. | 13,69,010 | |
| | To Stock Options Outstanding A/c | | | 13,69,010 |
| | (Being compensation expense recognised in respect of the ESOP) | | | |



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| | | | | |
|---|---|---|---|---|
| Year 2 | Employee compensation expense A/c | Dr. | 11,22,740 | |
| | To Stock Options Outstanding A/c | | | 11,22,740 |
| | (Being compensation expense recognised in respect of the ESOP) | | | |
| Year 3 | Employee compensation expense A/c | Dr. | 12,88,250 | |
| | To Stock Options Outstanding A/c | | | 12,88,250 |
| | (Being compensation expense recognised in respect of ESOP) | | | |
| Year 5 | Bank A/c @ Rs. 50 | Dr. | 30,00,000 | |
| | Stock Options Outstanding A/c @ Rs. 15 | Dr. | 9,00,000 | |
| | To Share Capital A/c @ Rs.10 | | | 6,00,000 |
| | To Securities Premium A/c @ Rs.55 | | | 33,00,000 |
| | (Being shares issued to the employees against the options vested in them in pursuance of the Employee Stock Option Plan) | | | |
| | Bank A/c @ Rs. 50 | Dr. | 90,00,000 | |
| | Stock Options Outstanding A/c @ Rs. 15 | Dr. | 27,00,000 | |
| | To Share Capital A/c @ Rs.10 | | | 18,00,000 |
| | To Securities Premium A/c @ Rs.55 | | | 99,00,000 |
| | (Being shares issued to the employees against the options vested in them in pursuance of the Employee Stock Option Plan) | | | |
| | Stock Options Outstanding A/c | Dr. | 1,80,000 | |
| | To General Reserve | | | 1,80,000 |
| | (Being the balance standing to the credit of the Stock Options Outstanding Account, in respect of vested options expired unexercised, transferred to the general reserve) | | | |

**Working Notes:**

1. At the grant date, the enterprise estimates the fair value of the options expected to vest at the end of the vesting period as below:

   No. of options expected to vest = 300 x 1,000 x 0.97 x 0.97 x 0.97 = 2,73,802 options

   Fair value of options expected to vest = 2,73,802 options x Rs. 15 = Rs. 41,07,030



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2. As the enterprise still expects actual forfeitures to average 3 per cent per year over the 3-year vesting period, therefore, it recognises Rs. 41,07,030/3 towards the employee services.

3. The revised number of options expected to vest is 2,49,175 (3,00,000 x .94 x .94 x .94). Accordingly, the fair value of revised options expected to vest is Rs. 37,37,625 (2,49,175 x Rs. 15). The expense to be recognised during the year are determined as below:

| | | |
|---|---|---|
| Revised total fair value | | Rs. 37,37,625 |
| Revised cumulative expense at the end of year 2 | = | (Rs. 37,37,625 x 2/3) |
| | = | Rs. 24,91,750 |
| Expense already recognised in year 1 = | | Rs. 13,69,010 |
| Expense to be recognised in year 2 = | | Rs. 11,22,740 |

4. The expense to be recognised during the year is determined as below:

No. of options actually vested = 840 x 300 = 2,52,000

| | |
|---|---|
| Fair value of options actually vested (Rs. 2,52,000 x Rs. 15) = | Rs. 37,80,000 |
| Expense already recognised | Rs. 24,91,750 |
| Expense to be recognised in year 3 | Rs. 12,88,250 |

**12. Receiver's Receipts & Payments Account**

| *Receipts* | | *Rs.* | *Payments* | | *Rs.* |
|---|---|---|---|---|---|
| Sundry Assets realized | | 2,00,000 | Cost of the Receiver | | 2,000 |
| Surplus received from Mortgage: | | | Preferential Payments : | | |
| Sales proceeds of Land and Building | 1,50,000 | | Creditors for – Taxes raised within 12 months | | 26,000 |
| *Less :* Applied towards discharge of | | | Debenture holders : | | |
| | | | Principal | 1,50,000 | |
| Mortgage Loan | 80,000 | 70,000 | Interest for six months | 9,750 | 1,59,750 |
| | | | Surplus transferred to the Liquidator | | 82,250 |
| | | 2,70,000 | | | 2,70,000 |

**Liquidator's Final Statement of Account**

| *Receipts* | *Rs.* | *Payments* | *Rs.* |
|---|---|---|---|
| Surplus received from Receiver | 82,250 | Cost of Liquidation | 2,800 |
| Assets realized | 1,00,000 | Remuneration to Liquidator | 3,000 |



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| | Rs. | | | Rs. |
|---|---|---|---|---|
| Calls on Contributories : | | Unsecured Creditors : | | |
| From 5,000 partly paid shares at the rate of Rs 2.17 per share | 10,850 | Trade | 32,000 | |
| | | Directors of Bank Overdraft paid | 30,000 | 62,000 |
| | | Preference Shareholders : | | |
| | | Share Capital | 1,00,000 | |
| | | Arrears of Div. | 22,000 | 1,22,000 |
| | | Equity Shareholders : | | |
| | | Return of money to holders of 10,000 fully paid shares at 33 paise each | | 3,300 |
| | 1,93,100 | | | 1,93,100 |

**Working Notes :**

| | | Rs. |
|---|---|---|
| Calls from partly paid shareholders : | | |
| Deficit before call from Equity Shares (1,82,250 – 1,89,800) | | (7,550) |
| Notional call on 5,000 shares @ Rs. 2.50 each | | 12,500 |
| Surplus after Notional call | (a) | 4,950 |
| No. of Shares deemed fully paid | (b) | 15,000 |
| Refund on fully paid shares 4,950 / 15,000 = | | 33 paise |
| Call on partly paid shares (2.50 – 0.33) = | | 2.17 |

**13. (a) Statement showing the amount of provision**

| | *Amount* | *% of provision* | *Provision* |
|---|---|---|---|
| | *Rs.* | | *Rs.* |
| Standard Assets | 5,000 | 0.40 | 20.0 |
| Sub-standard Assets | 1,120 | 10 | 112.0 |
| Doubtful Assets not covered by security | 200 | 100 | 200.0 |
| Doubtful Assets covered by security: | | | |
| for 1 year | 50 | 20 | 10.0 |
| for 3 years | 300 | 30 | 90.0 |
| for 4 years | 300 | 100 | 300.0 |
| Loss Assets | 200 | 100 | 200.0 |
| Total | | | 932.0 |



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**(b) (a)** **The Commercial Bank Ltd.**

**Journal Entries**

| *Date* | | | *Dr.* | *Cr.* |
|---|---|---|---|---|
| 2009 | | | *Rs.* | *Rs.* |
| March 31 | Rebate on Bills Discounted A/c | Dr. | 65,040 | |
| | To Interest and Discount A/c | | | 65,040 |
| | (Being the amount of provision for unexpired discount brought forward from the previous year credited to Interest and Discount A/c) | | | |
| March 31 | Interest and Discount A/c | Dr. | 92,760 | |
| | To Rebate on Bills Discounted A/c | | | 92,760 |
| | (Being provision for unexpired discount required at the end of the current year) | | | |
| March 31 | Interest and Discount A/c | Dr. | 1,96,34,680 | |
| | To Profit & Loss A/c | | | 1,96,34,680 |
| | (Being transfer of balance to Profit and Loss A/c) | | | |

**(b)** **Rebate on Bills Discounted Account**

| 2009 | | | *Rs.* | 2008 | | | *Rs.* |
|---|---|---|---|---|---|---|---|
| March 31 | To | Interest and Discount A/c | 65,040 | April 1 2009 | By | Balance b/d | 65,040 |
| 2009 | | | | March 31 | By | Interest and Discount | |
| March 31 | To | Balance c/d | 92,760 | | | A/c (rebate required) | 92,760 |
| | | | 1,57,800 | | | | 1,57,800 |

**(c)** **Interest and Discount Account**

| 2009 | | | *Rs.* | 2008 | | | *Rs.* |
|---|---|---|---|---|---|---|---|
| March 31 | To | Rebate on Bills Discounted A/c | 92,760 | April 1 2009 | By | Rebate on Bills Discounted A/c (opening balance) | 65,040 |
| March 31 | To | Profit & Loss A/c (transfer) | 1,96,34,680 | March 31 | By | Cash and Sundries | 1,96,62,400 |
| | | | 1,97,27,440 | | | | 1,97,27,440 |



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**14.** **Form B – RA (Prescribed by IRDA)**

**Revenue Account for the year ended 31st March, 2009**

**Marine Insurance Business**

| | *Schedule* | *Current Year* *Rs.* |
|---|---|---|
| Premiums earned (net) | 1 | 25,21,750 |
| Interest, Dividends and Rent – Gross | | 1,15,500 |
| Double Income Tax refund | | 12,000 |
| Profit on sale of motor car | | 5,000 |
| Total (A) | | 26,54,250 |
| Claims incurred (net) | 2 | 17,81,000 |
| Commission | 3 | 1,47,000 |
| Operating expenses related to Insurance business | 4 | 3,41,000 |
| Bad debts | | 5,000 |
| Indian and Foreign taxes | | 2,40,000 |
| Total (B) | | 25,14,000 |
| Profit from Marine Insurance business ( A-B) | | 1,40,250 |

**Schedules forming part of Revenue Account**

**Schedule –1**

| *Premiums earned (net)* | *Current Year* *Rs.* |
|---|---|
| Premiums from direct business written | 28,27,000 |
| *Less*: Premium on reinsurance ceded | 2,62,000 |
| Total Premium earned (net) | 25,65,000 |
| Change in provision for unexpired risk (Rs. 26,93,250 – Rs. 26,50,000) | (43,250) |
| | 25,21,750 |

**Schedule – 2**

| | |
|---|---|
| Claims incurred (net) | 17,81,000 |

**Schedule – 3**

| | |
|---|---|
| Commission paid | |
| Direct | 1,50,000 |
| *Add*: Re-insurance accepted | 11,000 |
| *Less*: reinsurance ceded | 14,000 |
| | 1,47,000 |



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**Schedule – 4**

Operating expenses related to insurance business

| | |
|---|---|
| Employees' remuneration and welfare benefits | 2,60,000 |
| Rent, Rates and Taxes | 18,000 |
| Printing and Stationery | 23,000 |
| Legal and Professional charges | 40,000 |
| | 3,41,000 |

**Working Notes:**

**1. Total Premium Income**

| | Direct | Re-insurance |
|---|---|---|
| | Rs. | Rs. |
| Received | 24,00,000 | 3,60,000 |
| *Add:* Receivable on 31st March, 2009 | 1,80,000 | 28,000 |
| | 25,80,000 | 3,88,000 |
| *Less:* Receivable on 1st April, .2008 | 1,20,000 | 21,000 |
| | 24,60,000 | 3,67,000 |

Total premium income 24,60,000 + 3,67,000 = 28,27,000

**2. Premium Paid**

| | |
|---|---|
| Paid | 2,40,000 |
| *Add:* Payable on 31st March, 2009 | 42,000 |
| | 2,82,000 |
| *Less:* Payable on 1st April, 2008 | 20,000 |
| | 2,62,000 |

**3. Claims Paid**

| | |
|---|---|
| Direct Business | 16,50,000 |
| Re-insurance | 1,25,000 |
| Legal Expenses | 20,000 |
| | 17,95,000 |
| *Less:* Re-insurance claims received | 1,00,000 |
| | 16,95,000 |

**4. Claims outstanding as on 31st March, 2009**

| | |
|---|---|
| Direct | 1,75,000 |
| Re-insurance | 22,000 |
| | 1,97,000 |



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| | |
|---|---|
| *Less:*Recoverable from Re-insurers on 31st March, 2009 | 12,000 |
| | 1,85,000 |

**5. Claims outstanding as on 1st April, 2008**

| | |
|---|---|
| Direct | 95,000 |
| Re-insurance | 13,000 |
| | 1,08,000 |
| *Less:* Recoverable from Re-insurers on 1st April, 2008 | 9,000 |
| | 99,000 |

**6. Expenses of Management**

| | |
|---|---|
| Salaries | 2,60,000 |
| Rent, Rates and taxes | 18,000 |
| Printing and Stationery | 23,000 |
| Legal Expenses | 40,000 |
| | 3,41,000 |

**15. (a) Alpha Electricity Company Limited**

**Plant Account**

| *Dr.* | | | *Cr.* |
|---|---|---|---|
| | *Rs.* | | *Rs.* |
| To Balance b/d | 30,00,000 | By Balance c/d | 66,41,250 |
| To Bank Account (Cost of new plant-capitalised) | 32,81,250 | | |
| To Replacement Account (Old parts) | 3,60,000 | | |
| | 66,41,250 | | 66,41,250 |
| To Balance b/d | 66,41,250 | | |

**Replacement Account**

| *Dr.* | | | *Cr.* |
|---|---|---|---|
| | *Rs.* | | *Rs.* |
| To Bank Account (Current cost of replacement) | 42,18,750 | By Bank Account (Sale of scrap) | 9,00,000 |
| | | By Plant Account (Old material used) | 3,60,000 |
| | | By Revenue Account (Transfer) | 29,58,750 |
| | 42,18,750 | | 42,18,750 |



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**Working Notes :**

(1) Cost to be incurred for replacement of present plant :

| | | *Cost of Existing Plant Rs.* | *Increase %* | *Current Cost Rs.* |
|---|---|---|---|---|
| Materials | | 15,00,000 | 25% | 18,75,000 |
| Labour | | 10,00,000 | 50% | 15,00,000 |
| | | | | 33,75,000 |
| Overheads | (1/4 of above or 1/5 of total) | | | 8,43,750 |
| | Current Replacement Cost | | | 42,18,750 |
| | Total Cash Cost | | | 75,00,000 |
| Amount capitalised, excluding old materials used | | | | 32,81,250 |

**(b) I Capital Base:** (Figures being in lakhs of rupees)

| | | |
|---|---|---|
| (a) | Original Cost of fixed assets as reduced by depreciation and contribution by consumers | 149.00 |
| (b) | Cost of Intangible assets as reduced by amount written off | 5.00 |
| (c) | Original cost of work in progress | – |
| (d) | Contingencies Reserve Investments | 10.00 |
| (e) | Average of current assets (other than Customers' Debts) | 20.00 |
| | Total (A) | 184.00 |
| | *Less:* | |
| (a) | Loan from Electricity Board | 30.00 |
| (b) | Loan from Approved Institution | 10.00 |
| (c) | 8% Debentures | 20.00 |
| (d) | Development Reserve | 10.00 |
| (e) | Security Deposits (e.g. Consumers Deposits) | 55.00 |
| (f) | Tariff and Dividend Control Reserve | 4.00 |
| (g) | Licensee' account | 1.00 |
| | Total (B) | 130.00 |
| | Capital Base (A – B) | 54.00 |



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**II Reasonable Return:**

| | | (Rs. in lakhs) |
|---|---|---|
| A. | 5% being RBI rate plus 2% on Capital Base (54 × 7%) | 3.78 |
| B | ½% on Loan from Electricity Board and Approved Institution and on Debentures and Development Reserve (Rs. 70.00 × ½%) | .35 |
| C | Income from investments other than Contingencies Reserve Investments (Rs. 50 × 4½%) | 2.25 |
| D | Reasonable Return (A + B + C) | 6.38 |

**III Total Surplus:**

| | | |
|---|---|---|
| A. | Clear profit after paying Debenture Interest (Rs. 7,90,000 – Rs. 1,60,000) | 6,30,000 |
| B. | *Less:* Reasonable Return | 6,38,000 |
| C. | Total Surplus (A – B) | Nil |

Since the amount of surplus is nil, the entire amount of clear profit (i.e. Rs. 6,38,000) is at the disposal of the company. No journal entry is required to be passed since the entire amount already lying the Net Revenued Appropriation Account is at the option of the company.

**16. Trading and Profit and Loss Account of Mr. Shiv Kumar**

**for the year ended 31st March, 2009**

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | Opening stock (balancing figure) | 80,000 | By | Sales | 4,00,000 |
| | | | By | Closing stock | 40,000 |
| To | Purchases | 2,40,000 | | | |
| To | Gross profit c/d @ 30% on sales | 1,20,000 | | | |
| | | 4,40,000 | | | 4,40,000 |
| To | Miscellaneous expenses (Rs.80,000 – Rs.8,000 + Rs.10,000) | 82,000 | By | Gross profit b/d | 1,20,000 |
| | | | By | Miscellaneous receipts | 20,000 |
| | | | By | Net loss transferred to Capital A/c | 25,840 |
| To | Depreciation: | | | | |
| | Building Rs. 36,000 | | | | |
| | Furniture Rs. 7,800 (Rs.6,800 + Rs.1,000) | | | | |



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| | | | | |
|---|---|---|---|---|
| | Motor Car Rs. 16,000 | 59,800 | | |
| To | Loss on sale of furniture | 11,000 | | |
| To | Bad debts | 8,000 | | |
| To | Provision for doubtful debts | 5,040 | | |
| | | 1,65,840 | | 1,65,840 |

**Balance Sheet of Mr. Shivkumar**

**as on 31st March, 2009**

| *Liabilities* | *Rs.* | *Rs.* | *Assets* | *Rs.* | *Rs.* |
|---|---|---|---|---|---|
| Capital as on 1st April, 2008 | | 7,16,000 | Building | 3,20,000 | |
| | | | *Add*: Addition during the year | 40,000 | |
| Profit and Loss A/c Opening balance | 40,000 | | *Less:* Provision for | 3,60,000 | |
| *Less:* Loss for the year | 25,840 | 14,160 | depreciation | 36,000 | 3,24,000 |
| | | | Furniture | 60,000 | |
| Sundry creditors | | 1,12,000 | *Less:* Sold during the year | 20,000 | |
| Bills payable | | 16,000 | | 40,000 | |
| Outstanding salary | | 10,000 | *Add:* Addition during the year | 28,000 | |
| | | | | 68,000 | |
| | | | *Less:* Depreciation | 6,800 | 61,200 |
| | | | Motor car (at cost) | 80,000 | |
| | | | *Less:* Depreciation | 16,000 | 64,000 |
| | | | Stock in trade | | 40,000 |
| | | | Sundry debtors | 2,52,000 | |
| | | | *Less:* Provision for doubtful debts @ 2% | 5,040 | 2,46,960 |
| | | | Bills receivable | | 28,000 |
| | | | Cash in hand and at bank | | 1,04,000 |
| | | 8,68,160 | | | 8,68,160 |



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**Working Notes:**

### Sundry Debtors Account

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | Balance b/d | 1,60,000 | By | Cash/Bank A/c | 2,00,000 |
| To | Sales A/c | 3,20,000 | By | Bills Receivable A/c | 20,000 |
| | | | By | Bad debts A/c | 8,000 |
| | | | By | Balance c/d (balancing fig.) | 2,52,000 |
| | | 4,80,000 | | | 4,80,000 |

### Sundry Creditors Account

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | Cash/Bank A/c | 1,84,000 | By | Balance b/d | 1,20,000 |
| To | Bills Payable A/c | 16,000 | By | Purchases A/c | 1,92,000 |
| To | Balance c/d (balancing figure) | 1,12,000 | | | |
| | | 3,12,000 | | | 3,12,000 |

### Bills Receivable Account

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | Balance b/d | 32,000 | By | Cash/ Bank A/c (balancing figure) | 24,000 |
| To | Sundry Debtors A/c | 20,000 | | | |
| | | | By | Balance c/d | 28,000 |
| | | 52,000 | | | 52,000 |

### Bills Payable Account

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | Cash/Bank A/c (balancing figure) | 28,000 | By | Balance b/d | 28,000 |
| | | | By | Sundry Creditors A/c | 16,000 |
| To | Balance c/d | 16,000 | | | |
| | | 44,000 | | | 44,000 |

### Furniture Account

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | Balance b/d | 60,000 | By | Bank/Cash A/c | 8,000 |
| To | Bank A/c | 28,000 | By | Depreciation A/c | 1,000 |
| | | | By | Profit and loss A/c (loss on sale) | 11,000 |
| | | | By | Depreciation A/c | 6,800 |
| | | | By | Balance c/d | 61,200 |
| | | 88,000 | | | 88,000 |



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**Cash/Bank Account**

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | Balance b/d | 1,80,000 | By | Misc. trade expenses A/c | 80,000 |
| To | Miscellaneous receipts A/c | 20,000 | By | Purchases A/c | 48,000 |
| To | Sundry Debtors A/c | 2,00,000 | By | Furniture A/c (balancing figure) | 28,000 |
| To | Sales A/c | 80,000 | By | Sundry Creditors A/c | 1,84,000 |
| To | Furniture A/c (sale) | 8,000 | By | Bills Payable A/c | 28,000 |
| To | Bills Receivable A/c | 24,000 | By | Building A/c | 40,000 |
| | | | By | Balance c/d | 1,04,000 |
| | | 5,12,000 | | | 5,12,000 |

**Opening Balance Sheet of Mr. Shivkumar**

**as on 31st March, 2008**

| *Liabilities* | *Rs.* | **Assets** | *Rs.* |
|---|---|---|---|
| Capital (balancing figure) | 7,16,000 | Building | 3,20,000 |
| Profit and loss A/c | 40,000 | Furniture | 60,000 |
| Sundry Creditors | 1,20,000 | Motor car | 80,000 |
| Bills Payable | 28,000 | Stock in trade | 80,000 |
| Outstanding salary | 8,000 | Sundry Debtors | 1,60,000 |
| | | Bills Receivable | 32,000 |
| | | Cash in hand and at bank | 1,80,000 |
| | 9,12,000 | | 9,12,000 |

**17.**

| **Cash flow from Operating Activities** | | *(Rs. in thousand)* |
|---|---|---|
| Change in general reserve | –200 | |
| Change in profit and loss account | –250 | |
| Proposed dividend | 3,400 | |
| Provision for tax | 0 | |
| Profit before tax | | 2,950 |
| *Add*: Depreciation | 550 | |
| *Add*: Miscellaneous Expenses | 50 | |
| *Add/(Less)*: Profit /(loss) on sale of fixed assets | –50 | |



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| | | |
|---|---|---|
| *Add/(Less)*: Profit /(loss) on sale of investments | –500 | 50 |
| Funds flow from operations | | 3,000 |
| *Add*: Interest paid | | 1,421 |
| *Less*: Interest and Dividend Received | | –402 |
| *Add/(Less)*: Working Capital Adjustment | | |
| Inventories | 90 | |
| Debtors | 110 | |
| Creditors | –150 | |
| Outstanding expenses | 30 | 80 |
| Cash flow from Operating Activities (before Tax) | | 4,099 |
| *Less*: Advance tax for 2009-2010 | | 0 |
| Cash flow from operating Activities (after tax) | | 4,099 |
| **Cash flow from Financing Activities** | | |
| Issue of shares | | |
| Face value | 1,500 | |
| Premium | 750 | 2,250 |
| Repayment of Secured Loans | –200 | |
| Raising of Unsecured Loans | 1,350 | |
| Net loan | | 1,150 |
| Interest payment | | –1,421 |
| Dividend payment for 2009 | | –2,800 |
| | | –821 |
| **Cash flow from Investment Activities** | | |
| Purchase of Fixed Assets | –1,800 | |
| Sale of Fixed Assets | 150 | |
| Capital WIP | –1,860 | |
| Fixed Assets (Net) | | –3,510 |
| Purchase of Investments | –1,330 | |
| Sale Proceeds of Investments | 2,500 | |
| Investments (Net) | | 1,170 |



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| | |
|---|---|
| Loans | –1,500 |
| Interest and Dividend Income | 402 |
| | –3,438 |

**Cash Flow Statement**

| | |
|---|---|
| Cash flow from Operating Activities (after tax) | 4,099 |
| Cash flow from Financing Activities | –821 |
| Cash flow from Investment Activities | –3,438 |
| Increase/decrease in Cash and Bank Balance (120 – 280) | –160 |

**18. Departmental Trading and Profit and Loss Account**

**For the year ending March 31, 2009**

| | *Cloth* Rs.. | *Readymade Clothes* Rs. | *Total* Rs. | | *Cloth* Rs. | *Readymade Clothes* Rs. | *Total* Rs. |
|---|---|---|---|---|---|---|---|
| To Opening Stock | 3,00,000 | 50,000 | 3,50,000 | By Sales | 22,00,000 | 4,50,000 | 26,50,000 |
| To Purchases | 20,00,000 | 15,000 | 20,15,000 | By Transfer to Readymade Clothes | 3,00,000 | | 3,00,000 |
| To Transfer from Cloth Department | | 3,00,000 | 3,00,000 | By Closing Stock | 2,00,000 | 60,000 | 2,60,000 |
| To Manufacturing Expenses | | 60,000 | 60,000 | | | | |
| To Gross profit c/d | 4,00,000 | 85,000 | 4,85,000 | | | | |
| | 27,00,000 | 5,10,000 | 32,10,000 | | 27,00,000 | 5,10,000 | 32,10,000 |
| To Selling Expenses | 20,000 | 6,000 | 26,000 | By Gross Profit b/d | 4,00,000 | 85,000 | 4,85,000 |
| To Profit c/d | 3,80,000 | 79,000 | 4,59,000 | | | | |
| | 4,00,000 | 85,000 | 4,85,000 | | 4,00,000 | 85,000 | 4,85,000 |
| To General Expenses | | | 1,10,000 | By profit b/d | | | 4,59,000 |
| To Stock Reserve (See Note) | | | 1,575 | | | | |
| To Net Profit | | | 3,47,425 | | | | |
| | | | 4,59,000 | | | | 4,59,000 |

*Note:* Stock Reserve has been calculated as follows:

Rate of Gross Profit on Sales in Cloth Department $\frac{4,00,000}{25,00,000} \times 100 = 16\%$

Element of Cloth in Closing Stock of Readymade Clothes :

75% of Rs. 60,000 = Rs. 45,000



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| | |
|---|---|
| Reserve required for unrealised profit @ 16% of Rs. 45,000 | Rs. 7,200 |
| Reserve already existing in Opening Stock – $\frac{15}{100}\times\frac{75}{100}\times 50{,}000$ | Rs. 5,625 |
| Additional Reserve required | Rs. 1,575 |

**Note :** It has been possible to know the reserve already credited against unrealised profit in the opening stock. In the absence of information, the reserve should be calculated on the difference in the opening and closing stocks. In the above case, it would have been calculated on Rs. 10,000; since the closing stock has increased, the reserve calculated on it would be debited to the profit and loss account.

**19. Statement Showing Liability of Underwriters on the basis that 'The Benefit of Firm Underwriting is not given to Individual Underwriters'**

*No. of shares*

| | *A* | *B* | *C* | *Total* |
|---|---|---|---|---|
| Gross Liability | 60,000 | 30,000 | 10,000 | 1,00,000 |
| *Less*:Marked Applications | 20,000 | 14,000 | 6,000 | 40,000 |
| | 40,000 | 16,000 | 4,000 | 60,000 |
| *Less*: Unmarked applications (Including firm underwriting in Gross Liability Ratio) | 24,000 | 12,000 | 4,000 | 40,000 |
| Net Liability | 16,000 | 4,000 | - | 20,000 |
| Add: Firm underwriting | 8,000 | 10,000 | 2,000 | 20,000 |
| Total liability of underwriters | 24,000 | 14,000 | 2,000 | 40,000 |

**Alternatively,**

**Statement Showing Liability of Underwriters on the basis that 'The Benefit of Firm Underwriting is given to Individual Underwriters'**

*No. of shares*

| | *A* | *B* | *C* | *Total* |
|---|---|---|---|---|
| Gross Liability | 60,000 | 30,000 | 10,000 | 1,00,000 |
| *Less*: Firm underwriting | 8,000 | 10,000 | 2,000 | 20,000 |
| | 52,000 | 20,000 | 8,000 | 80,000 |
| *Less*:Marked Applications | 20,000 | 14,000 | 6,000 | 40,000 |
| | 32,000 | 6,000 | 2,000 | 40,000 |
| *Less*: Unmarked applications (total application less firm underwriting less marked applications) in Gross Liability Ratio ( i.e. 80,000 – 20,000 –40,000) | 12,000 | 6,000 | 2,000 | 20,000 |



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| | | | | |
|---|---|---|---|---|
| Net Liability | 20,000 | - | - | 20,000 |
| *Add*: Firm underwriting | 8,000 | 10,000 | 2,000 | 20,000 |
| Total liability of underwriters | 28,000 | 10,000 | 2,000 | 40,000 |

**20. (a) Treasury system:** Under the treasury system, district treasury is the basic unit and the focal point for the primary record of financial transactions of government in the district with sub-treasuries under it at the Talukas and Tehsils level.

The Treasuries are of two kinds - (1) Banking (2) Non-banking. A bank treasury means a treasury, the cash business of which is conducted by the Reserve Bank of India or its branches or agencies authorised to conduct Government business and non-banking treasury means a treasury, the cash business of which is conducted by itself.

The functions entrusted to the treasury are as follows:

(i) Receipt of money from the public and departmental officers for credit to government.

(ii) Payment of claims against Government on bills or cheques or other instruments presented by departmental drawing and disbursing officers or pensioners or others authorised to do so.

(iii) Keeping initial and subsidiary accounts of the receipts and payments and rendering statements of such transactions to the Accountant General for detailed compilation and consolidation.

(iv) Acting as a banker in respect of funds of local bodies, Zila Parishads, Panchayat Institutions etc. who keep their funds with the treasuries.

(v) Custody of opium and other valuables because of the strong room facility provided at the treasury.

(vi) Custody of cash balances of the State Government and conducting cash business of Government at non-banking treasuries.

**(b)** Agricultural activities are carried on mostly in an unorganized manner. The farmer has no office and also does not find time for day by day record keeping. The transactions and events are also not supported by vouchers or other documents in most of the cases. So it is desirable to maintain a Diary to record happenings of the day. This Diary becomes the source document for record keeping.

Seven registers are required for running the accounting system.

1. *Cash Book:* to record cash transactions.
2. *Fixed Assets Register:* to record details of fixed assets – description of assets, cost of purchases/construction/generation, disposal, depreciation and balance.
3. *Loan Register:* to record borrowings from bank, cooperatives and other agencies trade creditors along with interest paid or payable.



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4. *Stock Register:* to record details of input, output and by product – receipts, utilization, wastage and balance.

5. *Debtors and Creditors Register:* to record credit transactions classified by parties involved.

6. *Register for National Transactions:* to record transactions between farm and farm household.

7. *Cost Analysis Register:* to record cropwise input and output inclusive of apportionment of common costs and finding out crop profit.

**21. (a)** Section 530 specifies the creditors that have to be paid in priority to unsecured creditors or creditor having a floating charge. Such creditors are known as Preferential Creditors. These are the following:

(a) All revenues, taxes, cesses and rates, becoming due and payable by the company within 12 months next before the commencement of the winding up.

(b) All wages or salaries (including wages payable for time or piece work and salary earned wholly or in part by way of commission) of any employee due for the period not exceeding 4 months within the twelve months next before commencement of winding up provided the amount payable to one claimant will not exceed Rs. 20,000.

(c) All accrued holiday remuneration becoming payable to any employee on account of winding up.

**Note:** Persons who advance money for the purpose of making preferential payments under (b) and (c) above will be treated as preferential creditors, provided the money is actually so used.

(d) Unless the company is being wound up voluntarily for the purpose of reconstruction, all contributions payable during the 12 months next under the Employees State Insurance Act, 1948, or any other law for the time being in force.

(e) All sums due as compensation to employees under the Workmen's Compensation Act, 1923.

(f) All sums due to any employee from a provident fund, pension fund, gratuity fund or any other fund, for the welfare of the employees maintained by the company.

(g) The expenses of any investigation held under section 235 or 237 in so far as they are payable by the company.

**(b)** Banking companies have to maintain sufficient liquid assets in the normal course of business. In order to safeguard the interest of depositors and to prevent banks form overextending their resources, liquidity norms have been settled and given statutory recognition. Every banking company has to maintain in cash, gold or unencumbered approved securities, an amount not less than 25%of its demand and



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time liabilities in India. However, this percentage is changed by the Reserve Bank of India from time to time considering the general economic conditions. This is in addition to the average daily balance which a scheduled bank is required to maintain under Section 42 of the Reserve Bank of India Act and in case of other banking companies, the cash reserve required to be maintained under Section 18 of the Banking Regulation Act.

**(c)** The law seeks to prevent an electricity undertaking from earning too high a profit. For this purpose, "reasonable return" has been defined as consisting of:

(a) an yield at the standard rate which is Reserve Bank rate plus two per cent on the capital base as defined below;

(b) Income derived from investment except investment made against Contingencies Reserve;

(c) An amount equal to ½ percent on loans advanced by the Electricity Board;

(d) An amount equal to ½% on the amounts borrowed from organizations or institutions approved by the Statement Government;

(e) An amount equal to ½% on the amount raised by the issue of debentures;

(f) An amount equal to ½% on balance of Development Reserve; and

(g) Such other amounts as may be allowed by the Central Government having regard to the prevailing tax structure in the country.

**(d)** Foreign branches generally maintain independent and complete record of business transacted by them in currency of the country in which they operate. Thus problems of incorporating balances of foreign branches relate mainly to translation of foreign currency into Indian rupees. This is because exchange rate of Indian rupees is not stable in relation to foreign currencies due to international demand and supply effects on various currencies.

**(e)** In the Debtors method, Hire purchase Trading account is prepared. The objective of preparing Hire Purchase Trading Account is to measure the profitability of the Hire Purchase division separately. The following are the steps to be followed while preparing a Hire Purchase Trading Account:

(1) Credit all down payments and instalments falling due to hire purchase sales account. Transfer balance in Hire Purchase Sales Account to Hire Purchase Trading Account.

(2) Transfer cost of all transactions to Hire Purchase Trading Account.

Hire Purchase Trading A/c Dr.

To Shop Stock A/c

(3) Charge any special expenses to Hire Purchase Trading Account.

(4) Treat instalments not yet due as stock lying with customers and transfer to Hire Purchase Trading Account.



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(5) Charge appropriate stock reserve.

**(f)** Profit and Loss Appropriation Account: Profit and Loss Appropriation Account is prepared by a partnership firm to distribute the net profit among the partners in accordance with the partnership deed. Any interest on drawing is added to the net profit and thereafter out of such total profit, interest on partners' capital, salaries, commission, rent etc. are distributed as per agreement. Lastly, the balance of profit is distributed among the partners at the profit sharing ratio.

**(g)** 'Firm' underwriting' signifies a definite commitment to take up a specified number of shares irrespective of the number of shares subscribed for by the public. In such a case, unless it has been otherwise agreed, the underwriter's liability is determined without taking into account the number of shares taken up 'firm' by him, i.e. the underwriter is obliged to take up :

1. the number of shares he has applied for 'firm'; and
2. the number of shares he is obliged to take up on the basis of the underwriting agreement.

**22. (a)** For a company under liquidation, the fundamental accounting assumption of "going concern" is apparently not valid. The assets and liabilities would stand appropriately adjusted to reflect the realizable value, by way of carrying amounts. This information will be required to be disclosed by the company under AS 1 on Disclosure of Accounting Policies.

**(b)** Inventories are usually written down to Net Realisable Value on an item-by-item basis. They should not be valued at Net Realisable Value on-

1. Wholistic basis i.e. all items of inventory taken together and
2. Classification basis e.g. all finished goods, or all inventories in a particular business segment.

   Exceptions: In special circumstances, it may be appropriate to group similar or related items, viz.,

   1. Inventory items relating to the same product line that have similar purposes or end uses;
   2. produced and marketed in the same geographical area; and
   3. Cannot be practicably evaluated separately from other items in the product line.

**(c)** Where the depreciable assets are revalued, the provision for depreciation should be based on the revalued amount and on the estimate of the useful lives of such assets.

If revaluation has a material effect on the amount of depreciation, the same should be disclosed separately in the year in which revaluation is carried out.



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**(d)** *Interest*: On time proportion basis considering the amount outstanding and rate of interest.

*Royalties*: On accrual basis in accordance with the terms of relevant agreement.

*Dividends*: When the owner's right to receive payment is established.

**(e)**

| *Particulars* | *Integral Foreign Operation (IFO)* | *Non-Integral Foreign Operation (NFO)* |
|---|---|---|
| Meaning | It is a foreign operation, the activities of which are an integral part of those of the reporting enterprise. | It is a foreign operation that is not an integral Foreign Operation. |
| Business | The business of IFO is carried on as if it were an extension of the reporting enterprise's operations. | The business of NFO is carried on in a substantially independent manner by accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowings, in its local currency. |
| Example | Sale of goods imported from the reporting enterprise and remittance of proceeds to the reporting enterprise. | Production in a foreign country out of resources available in such nation independent of the reporting enterprise. |
| Currencies operated | Generally, IFO carries on business in a single foreign currency, i.e. of the country where it is located. | NFO business may also enter into transactions in foreign currencies, including transactions in the reporting currency. |
| Cash flows from operations | Cash flows from operations of the reporting enterprise are directly and immediately affected by a change in the exchange rate between the reporting currency and the currency in the country of IFO. | Change in the exchange rate between the reporting currency and the local currency, has little or no direct effect on the present and future Cash Flows from Operations of either the NFO or the reporting enterprise. |
| Effect of Change in | Change in the exchange rate affects the individual monetary | Change in the exchange rate affects the reporting |



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| | | |
|---|---|---|
| Exchange Rate | items held by the IFO rather than the reporting enterprise's Net Investment in the IFO. | enterprise's net investment in the NFO rather than the individual monetary and non-monetary items held by that NFO. |

**(f)** Paragraphs 8 and 14 of AS 12 on Accounting for Government Grants deal with presentation of government grants related to specific fixed assets.

Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Where the grant related to a specific fixed asset equals the whole, or virtually the whole, of the cost of the asset, the asset should be shown in the balance sheet at a nominal value. Alternatively, government grants related to depreciable fixed assets may be treated as deferred income which should be recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset, i.e., such grants should be allocated to income over the periods and in proportion in which depreciation on those assets is charged. Grants related to non-depreciable assets should be credited to capital reserve under this method. However, if a grant related to a non-depreciable asset requires the fulfillment of certain obligations, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income balance should be separately disclosed in the financial statements.

**(g)** Capitalisation of borrowing costs as part of the cost of a qualifying asset should commence only when all the following conditions are satisfied:

1. The expenditure is being incurred for the Acquisition, construction or production of a qualifying asset;
2. Borrowing costs are being incurred; and
3. Activities that are necessary to prepare the asset for its intended use or sale, (including any technical or administrative work prior to the commencement of physical construction but excluding such activities during which no production or development takes place) are in progress.

**23. (a)** Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognized as intangible assets.

Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognized as intangible assets.

**(b)** The following principles/aspects apply in relation to measurement of a Provision.

1. **Best Estimate [Para 35]:** The amount recognized as Provision should be the



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best estimate of the expenditure required to settle the present obligation at the Balance Sheet data.

2. **Actual Value [Para 35]:** The amount of a Provision should not be discounted to its Present Value.

3. **Evidence Analysis [Para 36]:** The estimates of outcome and its financial effect are determined by – (a) the judgement of the management; (b) experience of similar transactions in the past; (c) reports from independent experts; (d) additional evidence provided by events occurring after the Balance Sheet date.

4. **Pre-Tax Effect [Para 37]:** Provision should be measured before tax. The tax consequence on the provision shall be dealt as per AS –22.

5. **Risks and Uncertainties [Para 38]:** The outcome of an event at a future date is subject to (a) Risk of Variability and (2) uncertainty. Hence, Risks and Uncertainties that inevitably surround events and circumstances should be taken into account in reaching the best estimate of a provision.

6. **Prudence [Para 39]:** Uncertainty does not justify the creation of excessive provisions or deliberate overstatement of liabilities. The concept of Prudence should be considered in determining the quantum of a liability.

7. **Future Events [Para 41]:** Future events that may affect the amount required to settle an obligation should be reflected in the amount of a Provision where there is sufficient objective evidence that they will occur.

8. **Gain on expected disposal of assets [Para 44, 45]:** Gains from the expected disposal of assets should not be taken into account in measuring a Provision. Even if the expected disposal is closely linked to the event giving rise to the provision, such gains should be recognized only at the time specified by other AS.

9. **Reimbursements from Third Party [Para 46, 47]:** The treatment for reimbursements is given below:

   (a) Where some or all of the expenditure required to settle a Provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation.

   (b) The reimbursement should be treated as a Separate Asset.

   (c) The amount recognized for the reimbursement should not exceed the amount of the provision.

   (d) In the Profit and Loss Statement, the expense relating to a Provision may be presented net of the amount recognized for a reimbursement.

10. **Review of Provision [Para 52]:** Provisions should be reviewed at each Balance Sheet date and adjusted to reflect the current best estimate.



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11. **Reversal of Provision [Para 52]:** Upon review, if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

12. **Use/Adjustment of Provision [Para 53, 54]:** A provision should be used only for expenditures for which the provision was originally recognized. Any expenditure shall not be adjusted against a provision that was not originally recognized for that purpose.

    **Example:** Payment of Gratuity shall not be adjusted against Provision for VRS Compensation.

13. **Future Operating Losses ignored [Para 55-57]:**

    (a) Provisions should not be recognized for Future Operating Losses since they do not meet the definition of a liability and the general recognition criteria for Provisions, under Para 14.

    (b) Where an expectation of Future Operating Losses is an indication of Impairment of Assets, it shall be dealt with as per AS-28.

14. **Restructuring Costs [Para 59, 60]:** Provision for Restructuring Costs should be recognized only when the recognition criteria for Provisions under Para 14 are met. No obligation arises for the sale of an operation until the enterprise is committed to the sale, i.e. there is a binding sale agreement.

**(c)** 1. **Prior Determination of item:** Segment Revenue, Segment Expense, Segment Assets and Segment Liabilities are determined before intra-enterprise balances.

2. **Elimination:** Intra-enterprise transactions are eliminated as part of the process of preparation of enterprise Financial Statements.

3. **No-elimination:** When intra-enterprise balances and transactions are within a single segment, they are NOT eliminated.

**(d)** P Ltd. would be considered to control R Ltd. The definition of control, as per paragraph 10 of AS 18, includes ownership, directly or indirectly, of more than one-half of the voting power of another enterprise. As P Ltd. is a majority shareholder in Q Ltd., it has control over it. Further, as P Ltd. and Q Ltd. together are majority shareholders (i.e. 15% + 50%) in R Ltd. P Ltd. has indirect control over it. Accordingly, P Ltd. has the ability to control R Ltd. indirectly, via the share ownership in Q Ltd. apart from its individual shareholding in R Ltd.

**(e)** Classification of the items into timing and permanent differences is as under :-

(i) Interest paid to bank is a timing difference.

(ii) Difference in depreciation rates is a timing difference.

(iii) Unabsorbed losses is a timing difference.

(iv) Revaluation Reserve is a permanent difference.



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**(f)** Paragraph 21 of Accounting Standard 23 on Accounting for Investments in Associates says that where the associate has a contingent liability , the investor has to disclose the following in the consolidated financial statements in accordance with AS 4:-

- Its share of the contingencies and capital commitments of an associate for which it is also contingently liable; and
- those contingencies that arise because the investor is severally liable for the liabilities of the associate.

**(g)** Accounting Standard 19 on Leases has defined the term non-cancellable lease as a lease that is cancellable only:

- upon the occurrence of some remote contingency; or
- with the permission of the lessor ; or
- if the lessee enters into a new lease for same or an equivalent asset with the same lessor; or
- upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain.

**(h)** As per paragraph 25 of Accounting Standard 20 on Earnings Per Share:

"The theoretical ex-rights fair value per share is calculated by adding the aggregate fair value of the shares immediately prior to the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. Where the rights themselves are to be publicly traded separately from the shares prior to the exercise date, fair value for the purposes of this calculation is established at the close of the last day on which the shares are traded together with the rights."

**24. (a)** The use of standard cost of elements of cost of production has been suggested by AS-2 as a matter of convenience only. In fact, AS-2 aims to suggest the use of absorption costing based on normal capacity. AS-2 says that standard cost system may be used for convenience if the results approximate the actual cost. If the company can adopt absorption costing for value of inventory, then the standard cost systems need not be adopted.

**(b)** The preparation of financial statements involve making estimates which are based on the circumstances existing at the time when the financial statements are prepared. It may be necessary to revise an estimate in a subsequent period if there is a change in the circumstances on which the estimate was based. Revision of an estimate, by its nature, does not bring the adjustment within the definitions of a prior period item or an extraordinary item [para 21 of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies].

In the given case, a limited company created 2.5% provision for doubtful debts for the year 2008-2009. Subsequently in 2009 they revised the estimates based on the



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changed circumstances and wants to create 8% provision. As per AS-5 (Revised), this change in estimate is neither a prior period item nor an extraordinary item.

However, as per para 27 of AS 5 (Revised), a change in accounting estimate which has material effect in the current period, should be disclosed and quantified. Any change in the accounting estimate which is expected to have a material effect in later periods should also be disclosed.

**(c)** The company should disclose the change in method of depreciation adopted for the accounting year. The impact on depreciation charge due to change in method must be quantified and reported by the enterprise.

Following aspects may be noted in this regard as per AS 6 on Depreciation Accounting.

(a) The depreciation method selected should be applied consistently from period to period.

(b) A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise.

(c) When such a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed.

(d) In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss.

(e) In case the change in the method results in surplus, the surplus should be credited to the statement of profit and loss. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.

**(d)** Paragraph 8.4 and 13 of Accounting Standard 9 on Revenue Recognition states that dividends from investments in shares are not recognised in the statement of profit and loss until a right to receive payment is established.

In the given case, the dividend is proposed on 10th April, 2009, while it is declared on 15th June, 2003. Hence, the right to receive payment is established on 15th June, 2009. As per the above mentioned paragraphs, income from dividend on units of mutual funds should be recognised by X Ltd. in the financial year ended 31st March, 2010.



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The recognition of Rs. 10 lakhs on accrual basis in the financial year 2008-2009 is not as per AS 9 'Revenue Recognition'.

**(e)** As per para 14.4, and para 32 of AS 10 loss of Rs. 150 lakhs should be taken to Revaluation reserve corresponding to these assets. Surplus of revaluation reserve following the retirement or disposal of an asset which relates to that asset may be transferred to general reserve. (Debit profit on sale of property, and credit loss on sale, and credit general reserve).

**(f)** Para 3 of AS 18 on Related Party Disclosures describes related party relationships as follows:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprises (this includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;

(c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;

(d) key management personnel and relatives of such personnel; and

(e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

Accordingly, the sale of goods worth Rs. 25 lakhs falls under the purview of AS 18 and hence the following information should be disclosed by X Limited as per para 23 of AS 18.

(i) the name of the transacting related party;

(ii) a description of the relationship between the parties;

(iii) a description of the nature of transactions;

(iv) volume of the transactions either as an amount or as an appropriate proportion;

(v) any other elements of the related party transactions necessary for an understanding of the financial statements;

(vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provision for doubtful debts due from such parties at that date; and

(vii) amounts written off or written back in the period in respect of debts due from or to related parties.



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**25. (a)**

| Year ended | Opening Balance in FCMITD A/c | Exchange Difference | Total | Amt. Recognised in P&L A/c | Closing Balance | Remarks |
|---|---|---|---|---|---|---|
| 31st March, 06 | Nil | (10 crore) | (10 crore) | (10 crore) | NIL | No change required |
| 31st March, 07 | NIL | (20 crore) | | (20 crore) | NIL | No change required |
| 31st March, 08 | NIL | (90 crore) | | (22.50 crore) | (67.50) | See Note No.3 |
| 31st March, 09 | (67.50 crore) | (20 crore) | (87.50 crore) | (29.17 crore) | (58.33 crore) | See Note No.4 |
| 31st March, 10 | (58.33 crore) | (10 corre) | (68.33 crore) | (34.17 crore) | (34.16 crore) | See Note No.5 |
| 31st March, 11 | (34.16 crore) | (10 crore) | (44.16 crore) | (44.16 crore) | NIL | See Note No.6 |

**Notes:**

1. FCMITD A/c denotes Foreign Currency Monetary Item Translation Difference Account
2. Losses/debit balance are depicted within brackets.
3. Total loss of Rs.90 crore parked in FCMITD A/c and amortised over 4 years till 2011. The amount of Rs.67.50 crore would be credited to General reserve & debited to FCMITD A/c in the year 2008-09.
4. The amount written off 2008-09 will 1/4th of Rs.90 crore i.e. Rs.22.50 crore + 1/3rd of Rs.20 crore = Rs.29.17 crore.
5. The amount written off in 2009-10 is 1/4th of Rs.90 crore + 1/3rd of Rs.20 crore + ½ of Rs.10 crore = Rs.34.17 crore.
6. The entire balance including loss on current year repayment is fully amortised.
7. The losses on amount repaid in 2010-11 are also routed through FCMITD A/c. Interest payments will be charged to the Profit & Loss account as done in earlier years at transaction value.

**(b)** (i) The total cost of the fixed asset is Rs. 250 lakhs and the grant is 40% i.e., Rs. 100 lakhs. In the balance sheet, the asset will be shown at the net amount (Rs. 250 lakhs – Rs. 100 lakhs) i.e, Rs. 150 lakhs only. This will depreciated over the life of the asset.

(ii) In this case, the subsidy received for setting up a plant in the notified region, should be treated as a capital subsidy. The amount of subsidy i.e. Rs. 100



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lakhs be added to the Capital Reserves and the plant should be shown at Rs. 300 lakhs.

(iii) Rs. 50 lakhs received from state government for setting up of water treatment plant should be deducted fro the cost of the plant in the balance sheet.

(iv) It is a case of revenue grant and should be shown in the profit and loss account. However, if the medical facilities are to be provided over a period of more than one year, it may be treated as deferred income and then taken to Profit and Loss Account on a systematic basis.

**(c)** The transfers should be made at lower of (a) Cost, and (b) Fair value at the date of transfer.

1. In this case, the transfer should be made at cost (being lower of Rs. 20 lakhs and Rs. 25 lakhs) and hence the long term investments should be carried at Rs. 20 lakhs.
2. In the second case, the transfer should be made at Market Value (being lower of Rs. 15 lakhs and Rs. 6.5 lakhs) and hence the long term investments should be carried at Rs. 6.50 lakhs. The loss of Rs. 15 – Rs. 6.5 = Rs. 8.5 lakhs should be provided for in the profit and loss account.
3. Here, the transfer should be made at carrying amount (being lower of Rs. 18 lakhs and Rs. 12 lakhs) and hence these reclassified current investments should be carried at Rs. 12 lakhs.

**(d) 1. Computation of Actual Borrowing Costs incurred during the year**

| *Source* | *Loan Amount* | *Interest Rate* | *Interest Amount* |
|---|---|---|---|
| | *Rs.in lakhs* | | *Rs. in lakhs* |
| Bank Loan | 65.00 | 10% | 6.50 |
| 9% Debentures | 125.00 | 9% | 11.25 |
| Term Loan from Corporation Bank | 100.00 | 10% | 10.00 |
| Term Loan from State Bank of India | 110.00 | 11.5% | 12.65 |
| Total | 400.00 | | 40.40 |
| Specific Borrowings included in above | 190.00 | | 17.75 |

**2.** Weighted Average Capitalisation Rate for General Borrowings =

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



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$$= \frac{(40.40 - 17.75)}{(400 - 190)} \times 100$$

$$= (22.65 \div 210) \times 100$$

$$= 10.79\%$$

3. **Capitalisation of Borrowing Costs under AS – 16 will be as under:**

| *Plant* | *Borrowing* | *Loan Amount* | *Interest Rate* | *Interest Amount* | *Cost of Asset* | |
|---|---|---|---|---|---|---|
| | | *Rs.in lakhs* | | *Rs. in lakhs* | *Rs. in lakhs* | *Rs. in lakhs* |
| P | General | 100 | 10.79% | 10.79 | | 110.79 |
| Q | Specific | 65 | 10.00% | 6.50 | 71.50 | |
| | General | 60 | 10.79% | 6.47 | 66.47 | 137.97 |
| R | Specific | 125 | 9.00% | 11.25 | 136.25 | |
| | General | 50 | 10.79% | 5.39 | 55.39 | 191.64 |
| | Total | 400 | | 40.40 | | 440.40 |

**Note:** The amount of borrowing costs capitalized should not exceed the actual interest cost.

**(e)** Para 11 of AS 20 states that "for the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to Equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period".

With an emphasis on the phrase "attributable to equity shareholders", it may be construed that amounts appropriated to Mandatory Reserves as described in this case, though not available for distribution as dividend, are still attributable to equity shareholders.

Therefore, the appropriation made to mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS. The treatment made by the company is not correct.

**(f)** Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognized as intangible assets.

Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognized as intangible assets.



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**(g)** 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.

***Note : AS 1 to AS 32 (including limited revisions) and ASI 1 to ASI 30 are applicable for May, 2010 examination. However, it may be noted that ASI 2 and ASI 11 have been withdrawn.***



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**Appendix**

## Companies (Accounting Standards) Amendment Rules, 2009 – Amendments in Annexure

### NOTIFICATION NO. G.S.R.225 (E)

### DATED 31-3-2009

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 read with sub-section (1) of section 21A and sub-section (3C) of section 211 of the Companies Act, 1956 (1 of 1956), the Central Government in consultation with the National Advisory Committee on Accounting Standards, hereby makes the following rules to amended the Companies (Accounting Standards) Rules, 2006, namely:-

1. (1) These rules may be called the Companies (Accounting Standards) Amendment Rules, 2009.

   (2) They shall come into force on the date of their publication in the Official Gazette.

2. In the Companies (Accounting Standard) Rules, 2006, in the Annexure, under the heading "B. ACCOUNTING STANDARDS", in the sub-heading "Accounting Standard (AS) 11" relating to "The Effects of Changes in Foreign Exchange Rates", after paragraph 45, the following shall be inserted, namely:-

"46. In respect of accounting periods commencing on or after 7th December, 2006 and ending on or before 31st March, 2011, at the option of the enterprise (such option to be irrevocable and to be exercised retrospectively for such accounting period, from the date this transitional provision comes into force or the first date on which the concerned foreign currency monetary item is acquired, whichever is later and applied to all such foreign currency monetary items), exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, insofar as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset, and in other cases, can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long-term asset/liability but not beyond 31st March, 2011, by recognition as income or expense in each of such periods, with the exception of exchange differences dealt with in accordance with paragraph 15. For the purposes of exercise of this option, an asset or liability shall be designated as a long-term foreign currency monetary item, if the asset or liability is expressed in a foreign currency and has a term of 12 months or more at the date of origination of the asset or liability. Any difference pertaining to accounting periods which commenced on or after 7th December, 2006, previously recognized in the profit and loss account before the exercise of the option shall be reversed insofar as it relates to the acquisition of a depreciable capital asset by addition or deduction from the cost of the asset and in other cases by transfer to "Foreign Currency Monetary Item Translation Difference Account" in both cases, by debit or credit, as the case may be, to the general reserve. If the option stated in this paragraph is exercised, disclosure shall be made of the fact of such exercise of such option and of the amount remaining to be amortized in the financial statements of the period in which such option is exercised and in every subsequent period so long as any exchange difference remains unamortized."

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