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PAPER – 1 : ADVANCED ACCOUNTING

QUESTIONS

Investment Accounts

1. 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 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.

Accounting for Hire Purchase Instalments

2. 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.

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(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.

(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).

Insurance Claim for Loss of Stock

3. 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.

Accounting for Redemption of Debentures

4. 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.

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Managerial Remuneration in Companies

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:

	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

Profit or Loss Prior to Incorporation

6. 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.

Self Balancing Ledgers

7. On 1st April, 2009 the details of the balances owed by customers were as following:

	Rs.
A	1,500

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B (Considered to be 60% bad; adequate provision maintained)	2,100
C	1,800
Others	35,600
	41,000
Less: Advance by E	2,000
	39,000

Sales during the month totaled Rs.1,55,500 including Rs.1,11,400 as cash sales; of the credit sale, a sale of Rs.2,600 was to E. A returned goods to the extent of Rs.500 and sent a bill receivable accepted by X for the balance. A sum of Rs.450 was received from B and the balance was written off. On instructions from Y, C's balance was transferred to Y's account in the Creditors Ledger. X's acceptance was dishonoured and noting charges were Rs.10. G sent an advance of Rs.1,800 for supply of goods. Out of the amount due from "others" on April 1, 2009, a sum of Rs.27,300 was received; the customers had earned 2½% discount on the amount paid. Similarly, out of the sales in April, a sum of Rs.9,750 had been received, earning discount at the same rate.

F who owed Rs.1,100 and G who owed Rs.800 turned doubtful; a provision of 50% of the amounts due was created. All other debts were considered good.

Prepare Total Debtors account for April 2009.

Departmental Accounts

8. 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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Amalgamation of Companies

9. 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,		9,00,000
10,000 shares of Rs.100 each fully paid		10,00,000	loans and advances		
Reserves and Surplus:					
Capital reserve	2,00,000				
General reserve	70,000	2,70,000			
Unsecured loans		2,00,000			
Current liabilities and provisions: 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:		Current assets, loans and advances:		
2,00,000 shares of 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

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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

10. 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.

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 in 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 and Joy - two-fifth.

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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	-
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

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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 @ 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.

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

(c) The Balance Sheet as on that date.

Accounting for Not for Profit Organisation

11. The accountant of City Club gave the following information about the receipts and payments of the club for the year ended 31st March, 2009:

Receipts:	*Rs.*
Subscriptions	62,130
Fair receipts	7,200
Variety show receipts (net)	12,810
Interest	690
Bar collections	22,350
Payments:	
Premises	30,000
Rent	2,400
Rates and taxes	3,780

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Printing and stationary	1,410
Sundry expenses	5,350
Wages	2,520
Fair expenses	7,170
Honorarium to secretary	11,000
Bar purchases (payments)	17,310
Repairs	960
New car (less proceeds of old car Rs. 9,000)	37,800

The following additional information could be obtained:-

	1.4.2008	*31.3.2009*
	Rs.	*Rs.*
Cash in hand	450	Nil
Bank balance as per cash-book	24,420	10,350
Cheque issued for sundry expenses not presented to the bank (entry has been duly made in the cash book)	270	90
Subscriptions due	3,600	2,940
Premises (at cost)	87,000	1,17,000
Provision for depreciation on premises	56,400	-
Car (at cost)	36,570	46,800
Accumulated depreciation on car	30,870	-
Bar stock	2,130	2,610
Creditors for bar purchases	1,770	1,290

Annual honorarium to secretary is Rs. 12,000. Depreciation on premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account for the year ended 31.3.2009.

Branch Accounts

12. 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

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	Rs.	
Sales:		
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.

Employees Stock Option Plan

13. 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%

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.

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Liquidation of Companies

14. 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			Debenture Issue	
Rs. 10 each, fully paid up		1,00,000	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 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.

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Financial Statements of Banking Companies

15. (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.

Financial Statements of Insurance Companies

16. 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	–

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	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

17. (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 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.

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(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.

Accounts from Incomplete Records

18. 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	*Balance as on 31st March, 2009*
	Rs.	*Rs.*
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000

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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%.

(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.

Average Due Date

19. 'A' lent Rs. 25,000 to 'B' on 1st January, 2009. The amount is repayable in 5 half-yearly installments commencing from 1st January, 2010. Calculate the average due date and interest @ 10% per annum.

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Cash Flow Statement

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

Balance Sheet (Rs. in thousand)		*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	
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

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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.

Short Notes

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.

Short reasoning based questions

22. (a) If both the sides of a cash book are not tallied i.e. debit side exceeds credit side then what are the possible items for recording the difference?

(b) The hire purchase price was payable Rs.19,152 on 1.1.20X1 and Rs.15,000 at the end of three successive years. Given the present value of an annuity of Re.1 p.a. @ 5% interest is Rs.2.7232. Calculate the cash price with the help of annuity factor.

(c) State the decision made in the Garner vs Murray case, when there is insolvency of a partner.

(d) X, Y and Z were partners sharing profits and losses in the ratio of 3:2:1 respectively. X died on 31st March, 2009. Calculate his share of profit during the accounting year 2009, when the partnership deed provided that the share of profit till the date of death be estimated at the sum calculated on the sales till the date of death by applying the ratio of Net Profit to Sales for the last accounting year. Sales from 1.1.2009 to 31.3.2009 amounted to Rs.30,000. Sales and Net Profit for the year 2008 amounted to Rs.3,60,000 and Rs.54,000 respectively.

(e) List the expenses to be allocated on the basis of turnover in case of departmental accounts.

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(f) While preparing branch account by invoice price method which entries are shown at invoice price?

(g) Why goods are marked on invoice price by the head office while sending goods to the branch?

(h) Explain the term 'average due date'?

(i) What is the maximum rate of underwriting commission on shares and debentures?

Questions Based on Accounting Standards

23. (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?

(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?

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

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

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

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

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

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decision. While applying the relevant accounting standard can this revision be considered as an extraordinary item or prior period item?

(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.

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 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:

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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.

(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-

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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?

(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:

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	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. 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

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Working Notes:

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

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

(iii) Rights shares renounced = $\left[1,500 \times \frac{1}{3}\right]$ = 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.

2. Perfect Investment Pvt. Ltd.

Hire Purchase Trading Account

Dr.						*Cr.*
			Rs.			*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
		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			

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		Rs.		Rs.
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

3. 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

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4. Journal Entries

Date	Particulars		Rs.	Rs.
2009				
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)			
	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

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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

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
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

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

	Particulars	*W.N.*	*Total (Rs.)*	*Pre-incorpor-ation 1.1.2009 to 30.4.2009*	*Post-incor-poration 1.5.2009 To 30.9.2009*		*Particulars*	*W.N.*	*Total Rs.*	*Pre-incorpor--ation 1.1.2009 to 30.4.2009*	*Post-incor-Poration 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:

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

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

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

(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.

7. Total Debtors Accounts

Dr. *Cr.*

2009		*Rs.*	*2009*		*Rs.*
Apr. 1	To Balance b/d	41,000	Apr. 1	By Balance b/d	2,000
" 30	To Credit Sales	44,100	" 30	By Cash	39,300
" 30	To Bills Receivable A/c	1,000	" 30	By Discount Account	950
" 30	To Cash (Noting Charges)	10	" 30	By Bad Debts Account	1,650
" 30	To Balance c/d (G)	1,800	" 30	By Returns Inwards A/c	500
			" 30	By Bills Receivable A/c	1,000
			" 30	By Total Creditors A/c (Transfer)	1,800
			" 30	By Balance c/d	40,710
		87,910			87,910

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2009 May 1	To Balance b/d	40,710	2009 May 1	By Balance b/d	1,800

Working Notes:

1. Cash Received:

		Rs.
From B		450
From G		1,800
	Rs.	2,250
Ex sales before April 1	27,300	
Ex sales during April	9,750	37,050
		39,300

2. Discount: Rs.37,050 × 2½ / 97½ = Rs.950

3. The creation of the Provision for Doubtful Debts will not affect the Total Debtors Account.

8. Departmental Trading and Profit and Loss Account

For the year ending March 31, 2009

Dr.	Cloth	Readymade Clothes	Total		Cloth	Readymade Clothes	Total *Cr.*
	Rs..	Rs.	Rs.		Rs.	Rs.	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

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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

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.

9. (a) Computation of intrinsic value of shares of A Co. Ltd. and B Co. Ltd. *Rs.*

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

		Rs.
Share Capital		10,00,000
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

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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 than cash: 50,000 Shares of Rs.10 each fully paid)		Cash at Bank (2,00,000 – 1,50,000)		50,000
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

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10. (a)

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:				
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

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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		
						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	
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

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(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	
	Happy	2,400	
	Joy	900	5,100
			5,700

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Allocation

Half-year to 31st March, 2009:

$\frac{1}{2} \times$ (Rs.5,700 – Rs.1,200) + Joy's salary of Rs.1,200	3,450
Half-year to 30 September 2009:	
$\frac{1}{2} \times$ (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:

$\frac{1}{2} \times$ (Rs.1,780 – Rs.250)	765
Half-year to 30th September 2009:	
$\frac{1}{2} \times$ (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 capital account	16,000
To Balance c/d	14,040	By Transfer from current account	2,500

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		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

11.

City Club

Receipts and Payments Account

for the year ended 31st March, 2009

Receipts	*Rs.*	*Payments*	*Rs.*
To Opening balance:		By Premises	30,000
Cash on hand	450	By Rent	2,400
Bank balance	24,420	By Rates and taxes	3,780
To Subscriptions	62,130	By Printing and stationary	1,410
To Fair receipts	7,200	By Sundry expenses	5,350

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To Variety show receipts (net)	12,810	By Wages	2,520
To Interest	690	By Fair expenses	7,170
To Bar collections	22,350	By Honorarium to secretary	11,000
To Sale proceeds of old car	9,000	By Bar purchases (payments)	17,310
		By Repairs	960
		By New Car	46,800
		By Closing balance	
		Cash in hand	Nil
		Bank balance	10,350
	1,39,050		1,39,050

Income and Expenditure Account

for the year ended 31st March, 2009

Expenditure	*Rs.*	*Rs.*	*Income*	*Rs.*	*Rs.*
To Rent		2,400	By Subscriptions	62,130	
To Rates and taxes		3,780	*Add:* Due as on 31.3.09	2,940	
To Printing and stationary		1,410		65,070	
To Wages		2,520	*Less*: Due as on 31.3.08	3,600	61,470
To Honorarium to secretary		12,000	By Surplus from fair:		
To Sundry expenses		5,350	Fair receipts	7,200	
To Repairs		960	*Less:* Fair expenses	7,170	30
To Depreciation on			By Surplus from variety show		12,810
Premises @ 5%	3,030				
Car @20%	9,360	12,390	By Interest		690
			By Profit from bar (W.N.2)		6,000
To Excess of income over expenditure		43,490	By Profit from sale of car (W.N. 3)		3,300
		84,300			84,300

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Working Notes:

1. Calculation of bar purchases

Bar Creditors Account

Dr.			*Cr.*
	Rs.		*Rs.*
To Bank A/c	17,310	By Balance b/d	1,770
To Balance c/d	1,290	By Bar purchases	16,830
	18,600		18,600

2. Profit from bar:

	Rs.	*Rs.*
Bar collections		22,350
Less: Bar stock consumed-		
Opening stock	2,130	
Add: Purchases	16,830	
	18,960	
Less: Closing stock	2,610	16,350
		6,000

3. Profit on sale of car:

Sale proceeds of old car	9,000
Less: W.D.V. of old car (Rs. 36,570-Rs. 30,870)	5,700
	3,300

12. Memorandum Branch Stock Account

Dr.					*Cr.*
		Rs	*Rs.*		*Rs.*
To	Goods sent to Brach:	.		By Cash Sales	12,50,700
	Cost	28,08,400		By Credit Sales	17,74,300
	Add: Loading @ 25%	7,02,100	35,10,500	By Abnormal Loss	
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

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Memorandum Branch Debtors Account

Dr.		Rs.			Cr. 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

Branch Account

Dr.		Rs.	Rs.			Rs.	Cr. Rs.
To	Goods Sent to Branch Account		35,10,500	By	Bank		
To	Bank			By	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		
					-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

13.

			Dr.	
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. 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

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

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3. The revised number of options expected to vest

   = 2,49,175 (3,00,000 x .94 x .94 x .94).

   The fair value of revised options expected to vest

   = Rs. 37,37,625 (2,49,175 x Rs. 15).

   The expense to be recognised during the year is 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
Less: 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

14. **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 Mortgage Loan	80,000	70,000	Debenture holders :		
			Principal	1,50,000	
			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

15. (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

Date			*Dr.*	*Cr.*
2009			*Rs.*	*Rs.*
Mar. 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)			
Mar. 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.)			
Mar. 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	By	Balance b/d	65,040
2009				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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16. **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

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Add: Re-insurance accepted	11,000
Less: reinsurance ceded	14,000
	1,47,000

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

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		1,97,000
	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

17. (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.

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.

18. 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); Motor Car Rs. 16,000	59,800			

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		Rs.			Rs.
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	
Profit and Loss A/c Opening balance	40,000		*Add*: Addition during the year	40,000	
Less: Loss for the year	25,840	14,160	*Less:* Provision for depreciation	3,60,000	
Sundry creditors		1,12,000	Furniture	36,000	3,24,000
Bills payable		16,000		60,000	
Outstanding salary		10,000	*Less:* Sold during the year	20,000	
				40,000	
			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

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

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			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
To	Balance c/d	16,000	By	Sundry Creditors A/c	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

Cash/Bank Account

		Rs.			Rs.
To	Balance b/d	1,80,000	By	Misc. trade expenses A/c	80,000

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		Rs.			Rs.
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		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

19. Calculation of sum of periods from the date of each transaction:

1st payment is made after 12 months from the date of loan.

2nd payment is made after 18 months from the date of loan.

3rd payment is made after 24 months from the date of loan.

4th payment is made after 30 months from the date of loan.

5th payment is made after $\frac{36}{120}$ months from the date of loan.

Average due date

$$= \text{Date of loan} + \frac{\text{Sum of months from 1st January, 2009 to the date of each installment}}{\text{Number of installments}}$$

$$= 1^{st} \text{ January, 2009} + \frac{120\text{months}}{5}$$

$= 1^{st}$ January, 2009+ 24 months

$= 1^{st}$ January, 2011

Interest = Rs. 25,000 x 10/100 x 2 years = Rs. 5,000

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20.

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	
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

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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
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

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.

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(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 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

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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.

(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) If debit side exceeds credit side then the difference may be any of the following item:

(i) Closing cash balance or bank balance; or

(ii) Opening bank overdraft;

(iii) Cash purchase; or

(iv) Payment to creditors; or

(v) Bills Payable discharged; or

(vi) Drawings; or

(vii) Purchase of fixed assets; or

(viii) Sundry expenses; or

(ix) Cash embezzlement by cashier.

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(b)

Cash Price	=	Down Payment + Present Value of Instalments
	=	Rs.19,152 + Rs. 15,000 x 2.7232
	=	Rs.19,152 + Rs.40,848
	=	Rs.60,000

(c) The decision in Garner vs. Murray case requires:

(i) That the solvent partners should bring in cash equal to their respective shares of the loss on realisation;

(ii) That the solvent partners should bear the loss arising due to the insolvency of a partner in the ratio of their Last Agreed Capitals.

The Last Agreed Capital should be interpreted as follows:

	Case	*Meaning of Last*
1.	In case of Fixed Capitals	Last Agreed Capital means the Fixed Capital (as given in the Balance Sheet) without any adjustment.
2.	In case of Fluctuating Capitals	Last Agreed Capital means the Capital after making adjustments for past accumulated reserves, profits or losses, drawings, interest on capitals, interest on drawings, remuneration to a partner etc. to the date of dissolution but before making adjustment for profit or loss on realisation

(d)

Estimated Profits for the period from 1.1.2009 to 31.3.2009

$= \frac{\text{Rs.30,000}}{\text{Rs.3,60,000}} \times 54{,}000$	4,500
Share of X $\left(\text{Rs.4,500} \times \frac{3}{6}\right)$	2,250

(e) Expenses to be allocated on the basis of turnover are: Sales Expenses as travelling salesman, salary and commission, selling expenses after sales service, discount allowed, bad debts, freight outwards, provision for discount on debtors, sales manager's salary and other benefits etc.

(f) In branch accounts by invoice price method-

(i) Goods sent to branch;

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(ii) Goods returned by the branch;

(iii) Opening stock at the branch; and

(iv) Closing stock at the branch are shown at invoice price.

(g) Goods are marked on invoice price to achieve the following objectives:

(i) In order to keep secret from the branch manager the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and

(ii) In order to have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.

(h) Average due date is an equated date of payment on which a single payment may be made in lieu of several payments due for payment on different dates, so that neither the debtor nor the creditor is a loser from the point of view of interest. In the process of single payment on the average due date, certain payment becomes payable before their actual due dates whereas some other payments become payable after their due dates. In other words, average due date is the arithmetic average of various payments.

(i) Underwriting commission on shares is 5% whereas on debentures it is 2.5%.

23. (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.

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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.

(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.

(h) 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.

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(i) 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."

(j) 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.

(k) 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 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.

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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.

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.

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

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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 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.

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(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.

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).

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

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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 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.

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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 =

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

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

$$= 10.79\%$$

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

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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.

(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

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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, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 16, 19, 20, 26 & 29 and ASI 1, 10, 12, 14, 29 & 30 are applicable for May, 2010 examination.**

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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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