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PAPER – 5 : ADVANCED ACCOUNTING

QUESTIONS

Accounting for Redemption of Debentures

1. 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 loan 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 that out 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.

Departmental Accounts

2. 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

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

Balance Sheet of A Co. Ltd.

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

Branch Accounts

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

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

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

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

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Accounting for Employees Stock Option Plan

5. 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.

Liquidation of Companies

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

Liabilities	Rs.	Assets	Rs.
Share Capital :		Land and Buildings	1,20,000
Issued : 11% Preference		Sundry Current Assets	3,95,000
Shares of Rs. 10 each	1,00,000	Profit & Loss Account	38,500
10,000 Equity Shares of Rs. 10 each, fully paid up	1,00,000	Debenture Issue Expenses not written off	2,000
5,000 Equity shares of Rs. 10 each, Rs. 7.50 per share paid-up	37,500		
13% Debentures	1,50,000		
Mortgage Loan	80,000		
Bank overdraft	30,000		

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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.

Financial Statements of Banking Companies

7. 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

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8. 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

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

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

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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

10. 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.

11. 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

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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.

Underwriting of shares

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

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

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

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

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

The marked applications were as follows:

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

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

Internal Reconstruction of a Company

13. The following is the Balance Sheet of X Ltd. as on 31st March, 2009:

Liabilities	Rs.	Assets	Rs.
12,000- 10% preference share of Rs.100 each	12,00,000	Goodwill	90,000
24,000-equity share of Rs.100 each	24,00,000	Land & Building	12,00,000
10% debentures	6,00,000	Plant & Machinery	18,00,000
Bank overdraft	6,00,000	Stock	2,60,000
Sundry Creditors	3,00,000	Debtors	2,80,000
		Cash	30,000
		P&L A/c	14,00,000
		Preliminary expenses	40,000
	51,00,000		51,00,000

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On the above date, the company adopted the following scheme of reconstruction:

(i) The equity shares are to be reduced to shares of Rs.40 each fully paid and the preference shares to be reduced to fully paid shares of Rs.75 each.

(ii) The debentureholders took over stock and debtors in full satisfaction of their claims.

(iii) The Land and Building to be appreciated by 30% and Plant and Machinery to be depreciated by 30%.

(iv) The fictitious and intangible assets are to be eliminated.

(v) Expenses of Reconstruction amounted to Rs.5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet.

Dissolution of a partnership firm

14. P, Q and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2009 is as follows:

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

They decided to dissolve the business. The following are the amounts realized:

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

Creditors allowed a discount of 5% and realization expenses amounted to Rs.1,500. There was an unrecorded assets of Rs.6,000 which was taken over by Q at Rs.4,800. A bill for Rs.4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

(i) Realisation account.

(ii) Partners capital account.

(iii) Cash account

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Partnership- Sale to a company

15. XYZ & Co. is a partnership firm consisting of Mr. X, Mr. Y and Mr. Z who share profits and losses in the ratio of 2:2:1 and ABC Ltd. is a company doing similar business.

    Following is the Balance sheet of the firm and that of the company as at 31.3.2009:

Liabilities	XYZ & Co.	ABC Ltd.		XYZ & Co.	ABC Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity share Capital:			Plant & machinery	5,00,000	16,00,000
Equity shares of Rs.10 each		20,00,000	Furniture & fixture	50,000	2,25,000
Partners capital:			Stock in trade	2,00,000	8,50,000
X	2,00,000		Sundry debtors	2,00,000	8,25,000
Y	3,00,000		Cash at bank	10,000	4,00,000
Z	1,00,000		Cash in hand	40,000	1,00,000
General reserve	1,00,000	7,00,000			
Sundry creditors	3,00,000	13,00,000			
	10,00,000	40,00,000		10,00,000	40,00,000

It was decided that the firm XYZ & Co. be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by ABC Ltd. by issuing 50,000 shares of Rs.10 each at a premium of Rs.2 per share.

Partners of XYZ & Co. agreed to divide the shares issued by ABC Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The creditors of XYZ & Co. includes Rs.1,00,000 payable to ABC Ltd. An unrecorded liability of Rs.25,000 of XYZ & Co. must also be taken over by ABC Ltd.

Prepare:

(i) Realisation account, Partners capital account and Cash in hand/Bank account in the books of XYZ & Co.

(ii) Pass journal entries in the books of ABC Ltd. for acquisition of XYZ & Co. and draw the Balance Sheet after the takeover.

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Buy Back of shares

16. Dee Limited furnishes the following Balance Sheet as at 31st March, 2008 :

Liabilities	Rs.'000	Rs.'000
Share Capital:		
Authorised Capital		30,00
Issued and subscrib ed capital:		
2,50,000 equity shares of Rs.10 each fully paid up	25,00	
2,000, 10% Preference shares of Rs.100 each		
(Issued two months back for the purpose of buy back)	2,00	
		27,00
Reserves and Surplus:		
Capital Reserve	10,00	
Revenue Reserve	30,00	
Securities Premium	22,00	
Profit and Loss A/c	35,00	
		97,00
Current liabilities and provisions:		14,00
		1,38,00

Assets	Rs.'000
Fixed assets	93,00
Investments	30,00
Current assets, loans and advances	
(Including cash and bank balance)	15,00
	1,38,00

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

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

Short notes

17. 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) Firm underwriting.

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Short reasoning based questions

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

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

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

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

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

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

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

    (b) A Ltd. take over B Ltd. on April 01, 2007 and discharges consideration for the business as follows:

    (a) Issued 42,000 fully paid equity shares of Rs. 10 each at par to the equity shareholders of B Ltd.

    (b) Issued fully paid up 15% preference shares of Rs. 100 each to discharge the preference shareholders (Rs. 1,70,000) of B Ltd. at a premium of 10%.

    (c) It is agreed that the debentures of B Ltd. (Rs. 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

    Calculate the amount of purchase consideration.

    (c) Pass journal entries in year 1 in the case of the issue of debentures by ABC Co. Ltd.:

    Issued Rs. 1,00,000, 11% debentures at 95% redeemable at the end of 10 years at 102%.

Accounting Standards

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

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

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

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

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

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

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

Practical Questions Based on Accounting Standards

23. (a) X Ltd. received a revenue grant of Rs.10 cores during 2006-07 from Government for welfare activities to be

    Carried on by the company for its employees. The grant prescribed the conditions for utilizations.

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

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

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

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

24. 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:

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;

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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.

25. (a) 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.

(b) 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.

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(c) 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?

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

(e) At the end of the financial year ending on 31st December, 2005, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

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

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

SUGGESTED ANSWERS/HINTS

1. Journal Entries

2009			Rs.	Rs.
Jan.1	14% Debentures A/c	Dr.	12,00,000	
	Premium on Redemption of Debentures A/c	Dr.	24,000	
	To Debentures holders A/c			12,24,000
	(Being amount payable on redemption of Rs.12,00,000 debentures at a premium of 2%)			

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

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(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

2. Departmental Trading and Profit and Loss Account

For the year ending March 31, 2009

Dr.	Cloth Rs..	Readymade Clothes Rs.	Total Rs.		Cloth Rs.	Readymade Clothes Rs.	Total Rs. Cr.
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 Manufactur-ing 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				By profit b/d			4,59,000

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Expenses	1,10,000		
To Stock Reserve (See Note)	1,575		
To Net Profit	3,47,425		____
	4,59,000		4,59,000

Note: Stock Reserve has been calculated as follows:

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

Element of Cloth in Closing Stock of Readymade Clothes :

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

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.

3. (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

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

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

Determination of composition of purchase consideration:

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

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

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

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

Liabilities	Rs.	Assets		Rs.
Share Capital Authorised:		Fixed Assets	16,00,000	
2,00,000 Shares of Rs.10 each	2,00,000	Addition on acquisition	7,60,000	23,60,000
Issued & subscribed:		Investments Current Assets Loans and Advances		
1,30,000 Shares of Rs.10 each fully paid	13,00,000	Other Current assets (9,00,000 + 6,60,000)		15,60,000
(Issued for consideration other than cash:		Cash at Bank (2,00,000 – 1,50,000)		50,000
50,000 Shares of Rs.10 each fully paid)				
Reserve & Surplus				
Securities Premium	5,00,000			
General Reserve	8,00,000			
Secured Loan	5,00,000			

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Unsecured Loans	2,00,000	
Current Liabilities and Provisions		
Sundry Creditors	6,70,000	
	39,70,000	39,70,000

4. Memorandum Branch Stock Account

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

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		

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					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 -Transfer of profit		3,00,300	By	Branch Debtors	1,78,600
			41,95,900			41,95,900

5.

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)			
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)			

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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.

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

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6. 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
Calls on Contributories :		Unsecured Creditors :		
		Trade Creditors	32,000	
From 5,000 partly paid shares at the rate of Rs 2.17 per share	10,850	Bank Overdraft	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)		(7550)
Notional call on 5,000 shares @ Rs. 2.50 each		12,500
Surplus after Notional call	(a)	4,950

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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

7. 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

8. (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).			

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(b) Rebate on Bills Discounted Account

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

(c) Interest and Discount Account

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

9. 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

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Schedules forming part of Revenue Account

Schedule –1

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

Schedule – 2

Claims incurred (net)	17,81,000

Schedule – 3

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

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

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2. Premium Paid

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

3. Claims Paid

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

4. Claims outstanding as on 31st March, 2009

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

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10. Alpha Electricity Company Limited

Plant Account

Dr.	Rs.		Cr. 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.	Rs.		Cr. 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

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

11. 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

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(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

II Reasonable Return:

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

III Total Surplus:

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

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

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

No. of shares

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

Alternatively,

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

No. of shares

	A	B	C	Total
Gross Liability	60,000	30,000	10,000	1,00,000
Less: Firm underwriting	8,000	10,000	2,000	20,000
	52,000	20,000	8,000	80,000
Less:Marked Applications	20,000	14,000	6,000	40,000
	32,000	6,000	2,000	40,000
Less:Unmarked applications (total application less firm underwriting less marked applications) in Gross Liability Ratio(i.e. 80,000 – 20,000 –40,000)	12,000	6,000	2,000	20,000
Net Liability	20,000	-	-	20,000
Add:Firm underwriting	8,000	10,000	2,000	20,000
Total liability of underwriters	28,000	10,000	2,000	40,000

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13. **Journal Entries**

March 31, 2009			Rs.	Rs.
(i)	Equity Share Capital A/c (Rs. 100)	Dr.	24,00,000	
	To Equity Share Capital A/c (Rs. 40)			9,60,000
	To Capital Reduction A/c			14,40,000
	(Being 24,000 equity shares of Rs.100 each reduced by Rs.60 each)			
(ii)	10% Preference Share Capital A/c (Rs.100)	Dr.	12,00,000	
	To 10% Preference Share Capital A/c (Rs.75)			9,00,000
	To Capital Reduction A/c			3,00,000
	(Being 12,000 Preference shares of Rs.100 reduced by Rs.25 each)			
(iii)	10% Debentures A/c	Dr.	6,00,000	
	To Stock A/c			2,60,000
	To Debtors A/c			2,80,000
	To Capital Reduction A/c			60,000
	(Being Debentures given stock and debtors in fully satisfaction of their claims)			
(iv)	Land & Building A/c	Dr.	3,60,000	
	To Capital Reduction A/c			3,60,000
	(Being Land & Building appreciated by 30%)			
(v)	Reconstruction Expenses A/c	Dr.	5,000	
	To Bank A/c			5,000
	(Being expenses of reconstruction paid)			
(vi)	Capital Reduction A/c	Dr.	21,60,000	
	To Goodwill A/c			90,000
	To P&L A/c			14,00,000
	To Plant & Machinery			5,40,000
	To Preliminary Expenses			40,000
	To Reconstruction Expenses			5,000
	To Capital Reserve (Balancing Figure)			85,000
	(Being various losses written off, assets written down and balance in Capital Reduction A/c transferred to Capital Reserve A/c)			

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Balance Sheet (And Reduced) of X Ltd.

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets:	
24,000, Equity shares @ 40 each fully paid	9,60,000	Land & Building	15,60,000
12,000, 10 % Preference Share of Rs.75 each fully paid	9,00,000	Plant & Machinery	12,60,000
Reserve & Surplus:		Current Assets:	
Capital Reserve	85,000	Cash (30,000 – 5,000)	25,000
Current Liabilities:			
Bank Overdraft	6,00,000		
Sundry Creditors	3,00,000		
	28,45,000		28,45,000

14. Realisation Account

	Particulars		Amount		Particulars		Amount
To	Debtors		48,000	By	Creditors		48,000
To	Stock		60,000	By	Cash (Assets realized)		
To	Fixtures		24,000		Plant and Machinery	1,02,000	
To	Plant and machinery		1,08,000		Fixtures	18,000	
To	Cash (Creditors) A/c		45,600		Stock	84,000	
To	Cash A/c (Bills for sales tax)		4,200		Sundry Debtors	44,400	2,48,400
To	Cash A/c (Realisation expenses)		1,500	By	Q (Unrecorded assets)		4,800
To	Profit on Realisation						
	P	3,960					
	Q	3,960					
	R	1,980	9,900				
			3,01,200				3,01,200

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Partners' Capital Accounts

	Particulars	P	Q	R		Particulars	P	Q	R
To	Realisation (unrecorded assets)		4,800		By	Balance b/d	1,20,000	48,000	24,000
To	Cash (Balancing Figure)	1,47,960	71,160	37,980	By	Reserve fund	24,000	24,000	12,000
					By	Realisation (Profit)	3,960	3,960	1,980
		1,47,960	75,960	37,980			1,47,960	75,960	37,980

Cash Account

	Particulars	Amount		Particulars	Amount
To	Balance c/d	60,000	By	Realisation A/c (Creditors)	45,600
To	Realisation A/c (Assets)	2,48,400	By	Realisation A/c (Expenses)	1,500
			By	Realisation (Sales Tax)	4,200
				P's Capital A/c	1,47,960
				Q's Capital A/c	71,160
				R's Capital A/c	37,980
		3,08,400			3,08,400

Working Note:

An unrecorded asset is in the nature of gain hence realization account is credited. Since these assets have been taken over by Q, his account has been debited.

15. (i) **In the books of XYZ & Co.**

Realisation Account

		Rs.			Rs.
To	Plant & Machinery	5,00,000	By	Sundry Creditors	3,00,000
To	Furniture & Fixture	50,000	By	ABC Ltd. (Refer W.N.)	6,00,000
To	Stock in trade	2,00,000	By	Partners' Capital Accounts (loss):	
				X's Capital A/c	20,000

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To	Sundry Debtors	2,00,000	Y's Capital A/c	20,000
			Z's Capital A/c	10,000
		9,50,000		9,50,000

Partners' Capital Accounts

		X	Y	Z			X	Y	Z
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
To	Realisation A/c	20,000	20,000	10,000	By	Balance b/d	2,00,000	3,00,000	1,00,000
To	Shares in ABC Ltd.	2,40,000	2,40,000	1,20,000	By	General Reserve	40,000	40,000	20,000
To	Cash	-	80,000	-	By	Cash	20,000	-	10,000
		2,60,000	3,40,000	1,30,000			2,60,000	3,40,000	1,30,000

Cash and Bank Account

		Cash	Bank			Cash	Bank
		Rs.	Rs.			Rs.	Rs.
To	Balance b/d	40,000	10,000	By	Cash A/c (Contra)*		10,000
To	Bank A/c (Contra)*	10,000		By	Y	80,000	
To	X	20,000					
To	Z	10,000					
		80,000	10,000			80,000	10,000

(ii) In the Books of ABC Ltd.

Journal Entries

			Dr. (Rs.)	Cr. (Rs.)
1.	Business Purchase Account	Dr.	6,00,000	
	To Liquidators of XYZ & Co.			6,00,000
	(Being business of XYZ & Co. purchased and payment due)			
2.	Plant and Machinery A/c	Dr.	5,00,000	
	Furniture and Fixture A/c	Dr.	50,000	
	Stock in Trade A/c	Dr.	2,00,000	
	Sundry Debtors A/c	Dr.	2,00,000	
	To Sundry Creditors			3,00,000
	To Unsecured Liability			25,000
	To Business Purchase Account			6,00,000

* It is assumed that cash at bank has been withdrawn to pay to Partner Y.

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	To Capital Reserve (B.F.)			25,000
	(Being take over of all assets and liabilities)			
3.	Liquidators of XYZ & Co.	Dr.	6,00,000	
	To Equity Share Capital Account			5,00,000
	To Securities Premium Account			1,00,000
	(Being purchase consideration discharged in the form of shares of Rs. 10 each issued at a premium of Rs. 2 each)			
4.	Sundry Creditors Account	Dr.	1,00,000	
	To Sundry Debtors Account			1,00,000
	(Being mutual owing eliminated)			

Balance Sheet of ABC Ltd.

as at 31.3.2009 (After take over of XYZ & Co.)

Liabilities	Rs.	Assets	Rs.
Share Capital		Plant and Machinery	21,00,000
Equity Share Capital (Rs.10 each)	25,00,000	Furniture Expenses	2,75,000
Share Premium	1,00,000	Stock in trade	10,50,000
Capital Reserve	25,000	Sundry Debtors	9,25,000
General Reserve	7,00,000	Cash at Bank	4,00,000
Sundry Creditors	15,00,000	Cash in hand	1,00,000
Un-recovered Liability	25,000		
	48,50,000		48,50,000

Working Note:

Computation of purchase consideration:

50,000 Equity shares of Rs.12 each = Rs.6,00,000

Equity shares to be given to partners.

Partners X	=	20,000 Shares @ Rs.12 = Rs.2,40,000
Partner Y	=	20,000 shares @ Rs.12 = Rs.2,40,000
Partner Y	=	10,000 shares @ Rs.12 = Rs.1,20,000

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16. **Books of Dee Limited**

Journal Entries

Date	Particulars		Dr.'000	Cr.'000
	Bank A/c	Dr.	22,00	
	Profit and Loss A/c	Dr.	8,00	
	To Investment A/c			30,00
	(Being the Sale of all investments)			
	Equity Share Capital A/c	Dr.	5,00	
	Premium payable on buy back A/c	Dr.	20,00	
	To Equity shares buy back A/c			25,00
	(Being the amount due on buy back)			
	Securities Premium A/c	Dr.	20,00	
	To Premium payable on buy back A/c			20,00
	(Being the premium payable on buy back provided for)			
	Securities Premium A/c	Dr.	2,00	
	Revenue Reserve A/c	Dr.	1,00	
	To Capital Redemption Reserve A/c			3,00
	(Being the amount equal to nominal value of equity shares bought back out of securities premium and free reserves transferred to capital redemption reserve a/c)			
	Equity shares buy-back A/c	Dr.	25,00	
	To Bank A/c			25,00
	(Being the payment made on buy back)			

Balance Sheet of Dee Limited as on 1st April, 2008

(After buy back of shares)

Liabilities	Rs.'000	Rs.'000
Share Capital		
Authorised Capital:		30,00
Issued and Subscribed Capital:		
2,00,000 equity shares of Rs.10 each fully paid up	20,00	
2,000 10% Preference shares of Rs.100 each fully paid up	2,00	22,00

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Reserve and Surplus:		
Capital Reserve	10,00	
Capital Redemption Reserve	3,00	
Revenue Reserve	29,00	
Profit and Loss A/c (35,00 – 8,00)	27,00	69,00
Current Liabilities and Provisions		14,00
		10,500
Fixed Assets		93,00
Current assets loans and advances (including cash and bank balance) (15,00+22,00- 25,00)		12,00
		10,500

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

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

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

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

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

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

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

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

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

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(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) '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.

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18. **(a)** 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 Agreed Capital
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

(b) 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.

(c) In branch accounts by invoice price method-

(i) Goods sent to branch;

(ii) Goods returned by the branch;

(iii) Opening stock at the branch; and

(iv) Closing stock at the branch

are shown at invoice price.

(d) 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.

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

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19.

(a)

	Rs.
Closing Stock of Department Q	27,000
Goods send by Department P to Department Q at a price 50% above cost	
Hence profit of Department P included in the stock will be - $\frac{27{,}000 \times 50}{150} =$	9,000

Amount of the Stock Reserve will be Rs.9,000.

(b)

Particulars	Rs.	Rs.
Equity Shares (42,000 x 10)		4,20,000
Preference Share Capital	1,70,000	
Add: Premium on Redemption	17,000	1,87,000
Purchase Consideration		6,07,000

(c)

ABC Co. Ltd.

Journal Entries

		Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	95,000	
Discount on issue of debentures A/c	Dr.	5,000	
Loss on issue of debentures A/c	Dr.	2,000	
To 11% Debentures A/c			1,00,000
To Premium on Redemption of debentures A/c			2,000
(Issue of Rs. 1,00,000 11% debentures at a discount of 5% but redeemable at a premium of 2%)			

20. (a)

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

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

(b) 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

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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.

21. (a) 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.

(b) 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.

22. (a) 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."

(b) 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

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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.

(c) 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. 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

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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.

23. (a) As per para 20 of AS 12, "Government Grants" that became refundable should be accounted for as an extra-ordinary item as per Accounting Standard 5.

Therefore, refund of grant should be shown in the profit and loss account of the company as an extra ordinary item during the year 2008-09.

(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

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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.

24.

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

Notes:

1. FCMITD A/c denotes Foreign Currency Monetary Item Translation Difference Account
2. Losses/debit balance are depicted within brackets.
3. Total loss of Rs.90 crore parked in FCMITD A/c and amortised over 4 years till 2011. The amount of Rs.67.50 crore would be credited to General reserve & debited to FCMITD A/c in the year 2008-09.
4. The amount written off 2008-09 will 1/4th of Rs.90 crore i.e. Rs.22.50 crore + 1/3rd of Rs.20 crore = Rs.29.17 crore.

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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.

25. (a) (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.

(b) 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 =

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

$$= \frac{(40.40 - 17.75)}{(400 - 190)} \times 100 = (22.65 \div 210) \times 100 = 10.79\%$$

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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.

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

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

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

(d) 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.

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

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

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

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

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

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

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

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

= Rs. 56,000

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

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

= Rs. 72,000

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

Note: AS 4, 5, 11, 12, 16, 19, 20, 26, 29 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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