

PAPER – 1 : ACCOUNTING

QUESTIONS

Redemption of Debentures

1. On 1st January, 2004 X Limited issued fifteen years debentures of Rs.100 each bearing interest at 10% p.a. One of the conditions of issue was that the company could redeem the debentures by giving six months' notice at any time after 5 years, at a premium of 4% either by payment in cash or by allotment of preference shares and/or other debentures at the option of the debenture holders.

On 1st April, 2009 the Company gave notice to the debenture holders of its intention to redeem the debentures on 1st October, 2009 either by payment in cash or by allotment of 11% preference shares of Rs.100 each at Rs.130 share or 11% Second Debentures of Rs.100 at Rs.96 per debenture.

Holders of 4,000 debentures accepted the offer of the preference shares; holders of 4,800 debentures accepted the offer of the 11% second debentures and the rest demanded cash on 1st October, 2009.

Give the journal entries to give effect to the above as of 1st October, 2009.

Financial Statements of Insurance Companies

2. Prepare the Fire Insurance Revenue A/c as per IRDA regulations for the year ended 31st March, 2008 from the following details:

Claims paid	4,90,000
Legal expenses regarding claims	10,000
Premiums received	13,00,000
Re-insurance premium paid	1,00,000
Commission	3,00,000
Expenses of management	2,00,000
Provision against unexpired risk on 1 st April, 2007	5,50,000
Claims unpaid on 1 st April, 2007	50,000
Claims unpaid on 31 st March, 2008	80,000

Accounting for Employees Stock Option Plan

3. ABC Ltd. grants 1,000 employees stock options on 1.4.2004 at Rs.40, when the market price is Rs.160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2006. 600 options are exercised on 30.6.2007. 100 vested options lapse at the end of the exercise period.

Pass Journal Entries giving suitable narrations.

Branch Accounts

4. Beta Ltd. having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31st March, 2009:

	Head Office (Rs.)	Branch (Rs.)
Opening stock (as on 1.4.2008)	2,25,000	-
Purchases	25,50,000	-
Goods sent to branch (Cost to H.O. plus 80%)	9,54,000	-
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2009.

Internal Reconstruction of a Company

5. The Balance Sheet of Munna Ltd. on 31st March, 2009 is as under:

Liabilities	Rs.	Assets	Rs.
Authorised, issued equity share capital		Goodwill	2,00,000
20,000, shares of Rs. 100 each	20,00,000	Plant and machinery	18,00,000
10,000, 7% Preference shares of		Stock	3,00,000
Rs. 100 each	10,00,000	Debtors	7,50,000
Sundry creditors	7,00,000	Preliminary expenses	1,00,000
Bank overdraft	3,00,000	Cash	1,50,000
	<u>40,00,000</u>	Profit and loss account	<u>7,00,000</u>
			<u>40,00,000</u>

Two years' preference dividends are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and paying dividend provided the capital base is reduced.

An internal reconstruction scheme as follows was agreed to by all concerned:

- (i) Creditors agreed to forego 50% of the claim.
- (ii) Preference shareholders withdrew arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9%

dividend effective after reorganization in case equity shareholders' loss exceed 50% on the application of the scheme.

- (iii) Bank agreed to convert overdraft into term loan to the extent required for making current ratio equal to 2 : 1.
- (iv) Revalued figure for plant and machinery was accepted as Rs. 15,00,000.
- (v) Debtors to the extent of Rs. 4,00,000 were considered good.
- (vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganisation.

Show:

- (a) Total loss to be borne by the equity and preference shareholders for the reorganization;
- (b) Share of loss to the individual classes of shareholders;
- (c) New structure of share capital after reorganization;
- (d) Working capital of the reorganized Company; and
- (e) A proforma balance sheet after reorganization.

Financial Statements of Electricity Companies

6. The following balance have been extracted at the end of March, 2009, from the books of an electricity company:

	Rs.		Rs.
Share capital	2,00,00,000	Consumers' deposit	80,00,000
Fixed assets	5,00,00,000	Tariffs and dividends control reserve	20,00,000
Depreciation reserve on fixed assets	60,00,000	Development reserve	16,00,000
Reserve fund (invested in 8% Government securities (at par)	1,20,00,000	12% debentures	40,00,000
Contingency reserve invested in 7% State loan	24,00,000	Loan from State Electricity Board	50,00,000
Amount (contributed by consumers towards cost of fixed asset)	4,00,000	Intangible assets	16,00,000
		Current assets (monthly average)	30,00,000

The company earned a profit of Rs.56,00,000 (after tax) in 2008-2009. Show how the profits have to be dealt with by the company assuming the bank rate was 10%.

All workings should form part of your answers.

Bonus Issue of Shares

7. Following is the extract of the Balance Sheet of X Ltd. as at 31st March,2009

Authorised capital:	Rs.
10,000 12% Preference shares of Rs.10 each	1,00,000
1,00,000 Equity shares of Rs.10 each	<u>10,00,000</u>
	<u>11,00,000</u>
Issued and Subscribed capital:	
8,000 12% Preference shares of Rs.10 each fully paid	80,000
90,000 Equity shares of Rs.10 each, Rs.8 paid up	7,20,000
Reserves and surplus:	
General Reserve	1,20,000
Capital Reserve	75,000
Securities premium	25,000
Profit and Loss Account	2,00,000
Secured Loan:	
12% Partly Convertible Debentures @ Rs.100 each	5,00,000

On 1st April, 2009, the Company has made final call @ Rs.2 each on 90,000 equity shares. The call money was received by 20th April,2009. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Securities premium of Rs.25,000 includes a premium of Rs.5,000 for shares issued to vendors pursuant to a scheme of amalgamation. Capital reserves include Rs.40,000, being profit on sale of plant and machinery, 20% of 12% debentures are convertible into equity shares of Rs.10 each fully paid on 1st July,2009

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue but before conversion of debentures.

Investment Accounts

8. Mohan carried out the following transactions in the shares of Sky Ltd.:

- (a) On 1st April, 2007 he purchased 20,000 equity shares of Re. 1 each fully paid up for Rs. 30,000.
- (b) On 15th May 2007, Mohan sold 4,000 shares for Rs. 7,600.
- (c) At a meeting on 15th June 2007, the company decided:
 - (i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2007, and

- (ii) To give its members the right to apply for one share for every five shares held on 1st June 2007 at a price of Rs. 1.50 per share of which 75 paise is payable on or before 15th July 2007 and the balance, 75 paise per share, on or before 15th September, 2007.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2007.

- (a) Mohan received his bonus shares and took up 2000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2007.
- (b) On 15th March 2008, he received a dividend from Sky Ltd. of 15 per cent in respect of the year ended 31st Dec 2007.
- (c) On 30th March he received Rs. 14,000 from the sale of 10,000 shares.

You are required to record these transactions in the Investment Account in Mohan's books for the year ended 31st March 2008 transferring any profits or losses on these transactions to Profit and Loss account. Apply average basis.

Expenses and tax to be ignored.

Hire-Purchase Accounting

9. (a) A acquired on 1st January, 2009 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of Rs. 6,000 each, the first instalment being due on 1st July, 2009. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All workings should form part of the answer.
- (b) Gayatri Ltd. has a hire purchase department. Goods are sold on hire purchase at a profit of 25% on sales price. From the following particulars, prepare Hire Purchase Trading Account in the books of Gayatri Ltd. for the year ended 31st March, 2009:

Particulars	Rs.	Particulars	Rs.
1.4.2008		During the year ended	
Stock in the shop	10,000	31.3.2009	
Instalments due	6,000	Goods sold on H.P. at H.P. price	1,76,000
Stock out with			
customers at H.P. price	80,000	Purchases	1,36,000
		Cash A/c	1,60,000
		31.3.2009	
		Stock in the shop	14,000
		Stock out with customers at H.P. price	92,000

Cash Flow Statements

10. From the following information, prepare cash flow statement as at 31st December, 2008 by using indirect method:

Balance Sheets					
Liabilities	2007	2008	Assets	2007	2008
	Rs.	Rs.		Rs.	Rs.
Share Capital	5,00,000	5,00,000	Fixed Assets	8,50,000	10,00,000
Profit & Loss A/c	4,25,000	5,00,000	Stock	3,40,000	3,50,000
Long Term Loans	5,00,000	5,30,000	Debtors	3,60,000	3,30,000
Creditors	1,75,000	2,00,000	Cash	30,000	35,000
			Bills Receivable		
				<u>20,000</u>	<u>15,000</u>
	<u>16,00,000</u>	<u>17,30,000</u>		<u>16,00,000</u>	<u>17,30,000</u>

Income Statement for the year ended 31st December, 2008

	Rs.
Sales	20,40,000
Less: Cost of Sales	<u>13,60,000</u>
Gross Profit	6,80,000
Less: Operating Expenses:	
Administrative Expenses	(2,30,000)
Depreciation	<u>(1,10,000)</u>
Operating Profit	3,40,000
Add: Non-Operating Incomes (dividend received)	<u>25,000</u>
	3,65,000
Less: Interest Paid	<u>(70,000)</u>
	2,95,000
Less: Income Tax	<u>1,30,000</u>
Profit after Tax	<u>1,65,000</u>

Statement of Retained Earnings

	Rs.
Opening Balance	4,25,000
Add: Profit	<u>1,65,000</u>

	5,90,000
Less: Dividend paid	<u>90,000</u>
Closing Balance	<u>5,00,000</u>

Also show cash flow from operating activities by using direct method.

Partnership Accounts - Admission of a Partner

11. A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 1.1.2009 was as follow:

Liabilities	Amount Rs.	Assets	Amount Rs.
Sundry Creditors	12,900	Building	26,000
Bill Payable	4,100	Furniture	5,800
Bank Overdraft	9,000	Stock-in-Trade	21,400
Capital Account:		Debtors	35,000
A 44,000		Less: Provision	<u>200</u>
B <u>36,000</u>	80,000	Investment	2,500
	<u>1,06,000</u>	Cash	<u>15,500</u>
			<u>1,06,000</u>

'C' was admitted to the firm on the above date on the following terms:

- (i) He is admitted for 1/6th share in future profits and to introduce a Capital of Rs. 25,000.
- (ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.
- (iii) 'C' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.
- (iv) Furniture is to be written down by Rs. 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for Rs. 1,560. The value of Buildings having appreciated be brought upto Rs. 29,200. The value of investment is increased by Rs. 450.
- (v) It is found that the creditors included a sum of Rs. 1,400, which is not to be paid off.

Prepare the following:

- (i) Revaluation Account.
- (ii) Partners' Capital Accounts.
- (iii) Balance Sheet of New Partnership firm after admission of 'C'.

Profit (Loss) Prior to Incorporation

12. A company was incorporated on 1st July, 2008 to take over the business of Mr. M as and from 1st April, 2008. Mr. M's Balance Sheet, as at that date was as under:

Liabilities	Rs.	Assets	Rs.
Trade Creditors	36,000	Building	80,000
Capital	1,94,000	Furniture and Fittings	10,000
		Debtors	90,000
		Stock	30,000
		Bank	<u>20,000</u>
	<u>2,30,000</u>		<u>2,30,000</u>

Debtors and Bank balances are to be retained by the vendor and creditors are to be paid off by him. Realisation of debtors will be made by the company on a commission of 5% on cash collected. The company is to issue M with 10,000 equity shares of Rs.10 each, Rs.8 per share paid up and cash of Rs.56,000.

The company issued to the public for cash 20,000 equity shares of Rs.10 each on which by 31st March, 2009 Rs.8 per share was called and paid up except in the case of 1,000 shares on which the third call of Rs.2 per share had not been realized. In the case of 2,000 shares, the entire face value of the shares had been realized. The share issue was underwritten for 2% commission, payable in shares fully paid up.

In addition to the balances arising out of the above, the following were shown by the books of accounts of the company on 31st March, 2009:

	Rs.
Discount (including Rs.1,000 allowed on vendor's debtors)	6,000
Preliminary expenses	10,000
Directors' fees	12,000
Salaries	48,000
Debtors (including vendor's debtors)	1,60,000
Creditors	48,000
Purchases	3,20,000
Sales	4,60,000

Stock on 31st March, 2009 was Rs.52,000. Depreciation at 10% on Furniture and Fittings and at 5% on Building is to be provided. Collections from debtors belonging to the vendor were Rs.60,000 in the period.

Kindly prepare the Trading and Profit & Loss Account for the period ended 31st March, 2009 of the limited company and its Balance Sheet as at that date.

Amalgamation of Companies

13. The Balance Sheets of Strong Ltd. and Weak Ltd. as on 31.03.2009 is as below:

Balance Sheet as on 31.03.2009

Liabilities	Strong Ltd. Rs.	Weak Ltd. Rs.	Assets	Strong Ltd. Rs.	Weak Ltd. Rs.
Equity Capital (Rs.100 each)	50,00,000	30,00,000	Fixed Assets other than Goodwill	30,00,000	20,00,000
Reserve	4,00,000	2,00,000	Stock	8,00,000	6,00,000
P & L A/c	6,00,000	4,00,000	Debtors	14,00,000	9,00,000
Creditors	5,00,000	3,00,000	Cash & Bank	12,00,000	3,50,000
			Preliminary Expenses	<u>1,00,000</u>	<u>50,000</u>
	<u>65,00,000</u>	<u>39,00,000</u>		<u>65,00,000</u>	<u>39,00,000</u>

Strong Ltd. takes over Weak Ltd. on 01.07.09. No Balance Sheet of Weak Ltd. is available as on that date. It is however estimated that Weak Ltd. earns estimated profit of Rs.2,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets, during April-June, 2009.

Estimated profit of Strong Ltd. during these 3 months is Rs.4,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets.

Both the companies have declared and paid 10% dividend within this 3 months' period. Goodwill of Weak Ltd. is valued at Rs.2,00,000 and Fixed Assets are valued at Rs.1,00,000 above the estimated book value. Purchase consideration is to be satisfied by Strong Ltd. by shares at par. Ignore Income-tax.

You are required to calculate the following:

- No. of shares to be issued by Strong Ltd. to Weak Ltd. against purchase consideration;
- Net Current Assets of Strong Ltd. and Weak Ltd. as on 01.07.2009;
- P & L A/c balance of the Strong Ltd. as on 01.07.2009;
- Fixed Assets as on 01.07.2009;
- Balance Sheet of Strong Ltd. as on 01.07.2009 after take over of Weak Ltd.

Insolvency of a Sole-Proprietor

14. With the help of the following information prepare statement of affairs of Mr. Zenith, who was declared insolvent under the Presidency Town Insolvency Act, 1909.

His capital was Rs.3,500 and his drawings were Rs.3,500.

His assets consist of:

- (i) Stock (book value Rs.7,500) estimated to produce Rs.4,500.
- (ii) Freehold house (private property) valued at Rs.10,000, the deed of which was lodged with the bank as security for an overdraft on business account Rs.4,000.
- (iii) Book-debts Rs.5,000 of which Rs.4,000 was considered good and the balance estimated to produce Rs.500.
- (iv) His life policy (Surrender value Rs.3,000) was given as a part security for a private loan of Rs.5,000.
- (v) Machinery (Book value Rs.8,000) Cost price Rs.9,000, Estimated to produce Rs.5,500.

His unsecured creditors amounted to Rs.20,150 and he owed Rs.250 to his clerk being salary for two months just preceding the date of his insolvency.

Financial Statements of Banking Companies

15. (a) In X Bank Ltd., the doubtful asset (more than 3 years) as on 31.3.2008 is Rs.1,000 lakhs. The value of security (including DICGC 100% cover of Rs.100 lakhs) is ascertained at Rs.500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?
- (b) From the following information of Great Bank Limited, compute the provisions to be made in the Profit and Loss account:

	Rs. in lakhs
Assets	
Standard	20,000
Substandard	16,000
Doubtful	
For one year (secured)	6,000
For two years and three years (secured)	4,000
For more than three years (secured by mortgage of plant and machinery Rs.600 lakhs)	2,000
Non-recoverable Assets	1,500

Accounts from Incomplete Records

16. The books of Mr. Z showed the following information:

	1.1.2008 (Rs.)	31.12.2008 (Rs.)
Bank balance	---	50,000
Debtors	---	87,500

Creditors	---	46,000
Stock	50,000	62,500
Fixed assets	7,500	9,000

The following are the details of the bank transactions:

	Rs.
Receipt from customers	3,40,000
Payments to creditors	2,80,000
Capital brought in	5,000
Sale of fixed assets	1,750
Expenses paid	49,250
Drawings	25,000
Purchase of fixed assets	5,000
Other informations:	
(i) Cost of goods sold	Rs.2,60,000
(ii) Gross profit 25% on cost of goods sold	
(iii) Book value of assets sold	Rs.2,500

Prepare Trading, Profit and Loss account for the year ended 31.12.2008 and Balance Sheet as at 31.12.2008.

Liquidation of a Company

17. (a) Liquidation of YZ Ltd. commenced on 2nd April, 2009. Certain creditors could not receive payments out of the realisation of assets and out of the contributions from A list contributories. The following are the details of certain transfers which took place in 2008 and 2009:

Shareholders	No. of Shares transferred	Date of Ceasing to be a member	Creditors remaining unpaid and outstanding on the date of such transfer
A	2,000	1st March, 2008	Rs. 5,000
P	1,500	1st May, 2008	Rs. 3,300
Q	1,000	1st October, 2008	Rs. 4,300
R	500	1st November, 2008	Rs. 4,600
S	300	1st February, 2009	Rs. 6,000

All the shares were of Rs. 10 each, Rs. 8 per share paid up. Show the amount to be realised from the various persons listed above ignoring expenses and remuneration to liquidator etc.

(b) The position of Valueless Ltd. on its liquidation is as under:

Issued and paid up Capital:

3,000 11% preference shares of Rs. 100 each fully paid.

3,000 Equity shares of Rs. 100 each fully paid.

1,000 Equity shares of Rs. 50 each Rs. 30 per share paid.

Calls in Arrears are Rs. 10,000 and Calls received in Advance Rs. 5,000. Preference Dividends are in arrears for one year. Amount left with the liquidator after discharging all liabilities is Rs. 4,13,000. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital. You are required to prepare the Liquidators final statement of account.

Partnership Accounts- Admission and Retirement of a Partner

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

Balance Sheet as at 31.3.2008

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

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

- (i) Goodwill is to be valued at Rs.5,00,000, but the same will not appear as an asset in the books of the firm.
- (ii) Building and machinery are to be revalued at Rs.10,00,000 and Rs.5,20,000 respectively.
- (iii) Investments are to be taken over by B at the market value.

- (iv) Provision for doubtful debts to be maintained at 20% on sundry debtors.
- (v) The capital of the reconstituted firm will be Rs.10,00,000 to be contributed by the partners A, C and D in their new profit sharing ratio of 2 : 2 : 1.
- (vi) Surplus funds if any will be used to pay the bank overdraft.
- (vii) Amount due to retiring partner B will be transferred to his loan account.

Prepare:

- (i) Revaluation Account;
- (ii) Capital Accounts of the partners; and
- (iii) Balance Sheet of the firm after reconstitution.

Departmental Accounts

19. Z Ltd. has three departments and submits the following information for the year ending on 31st March, 2009:

	A	B	C	Total (Rs.)
Purchases (units)	6,000	12,000	14,400	
Purchases (Amount)				6,00,000
Sales (Units)	6,120	11,520	14,976	
Selling Price (per unit) Rs.	40	45	50	
Closing Stock (Units)	600	960	36	

You are required to prepare departmental trading account of Z Ltd., assuming that the rate of profit on sales is uniform in each case.

Profit and Loss Account (Below the Line)

20. (a) The Articles of Association of S Ltd. provide the following:
- (i) That 20% of the net profit of each year shall be transferred to reserve fund.
 - (ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.
 - (iii) That the balance available for distribution shall be applied:
 - (a) in paying 14% on cumulative preference shares.
 - (b) in paying 20% dividend on equity shares.
 - (c) one-third of the balance available as additional dividend on preference shares and 2/3 as additional equity dividend.

A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 12% on preference shares after making provisions (i), (ii) and (iii) mentioned above. The company has issued 13,000, 14% cumulative participating

preference shares of Rs. 100 each fully paid and 70,000 equity shares of Rs. 10 each fully paid up.

The profit for the year 2008 was Rs. 10,00,000 and balance brought from previous year Rs. 80,000. Provide Rs. 31,200 for depreciation and Rs. 80,000 for taxation before making other appropriations. Prepare Profit and Loss Account –below the line.

Managerial Remuneration

- (b) The Managing Director of A Ltd. is entitled to 5% of the annual net profits, as his remuneration, subject to a minimum of Rs.25,000 per month. The net profits, for this purpose, are to be taken without charging income-tax and his remuneration itself. During the year, A Ltd. made net profit of Rs.43,00,000 before charging Managing Director's remuneration, but after charging provision for taxation of Rs.17,20,000. Compute remuneration payable to the Managing Director.

Theory Questions

21. (a) What is "Fund Based Accounting" under not-for-profit organisations?
(b) "One of the characteristics of financial statements is neutrality"- Do you agree with this statement?
(c) Mention six areas in which different accounting policies are followed by companies.
(d) What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein?
(e) Explain the use of accounting information in Agricultural farm.
(f) Describe the structure of Government Accounts.

Theory Questions on Accounting Standards

22. (a) Mention four assets, in respect of which AS 6 (revised) is not applicable.
(b) How would you record a non-monetary grant received from the Government as per AS 12?
(c) What is the accounting entry to be passed as per AS 10 for the following situations:
(a) Increase in value of fixed asset by Rs.50,00,000 on account of revaluation.
(b) Decrease in the value of fixed asset by Rs.30,00,000 on account of revaluation.
(d) When can an item qualify to be a prior period item as per AS 5?
(e) What are the items that are to be excluded in determination of the cost of inventories as per AS-2?
23. (a) List the criteria to be applied for rating an enterprise as Level-I enterprise for the purpose of compliance of Accounting Standards in India.

- (b) Enumerate two points which the financial statements should disclose in respect of Borrowing Costs as per AS 16.
- (c) Explain the types of lease as per AS 19.
- (d) Explain the criteria of identification of Reportable Segments as per AS 17.
- (e) Explain the generally accepted fundamental accounting assumptions as per AS 1

Practical problems based on Accounting Standards

24. (a) The company finds that the stock sheets of 31.3.2007 did not include two pages containing details of inventory worth Rs. 20 lakhs. State, how will you deal with this matter in the accounts of A Ltd. for the year ended 31st March, 2008 with reference to AS 5.

(b) X Ltd. sold goods to its associate company for the 1st quarter ending 30.6.2009. After that, the related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer. Decide whether transactions of the entire year has to be disclosed as related party transaction.

(c)

	Exchange Rate per \$
Goods purchased on 1.1.2007 of US \$ 10,000	Rs.45
Exchange rate on 31.3.2007	Rs.44
Date of actual payment 7.7.2007	Rs.43

Ascertain the loss/gain for financial years 2006-07 and 2007-08, also give their treatment as per AS 11.

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

(e) From the following information relating to Y Ltd. Calculate Earnings Per Share (EPS):

	Rs. in crores
Profit before V.R.S. payments but after depreciation	75.00
Depreciation	10.00
VRS payments	32.10
Provision for taxation	10.00
Fringe benefit tax	5.00
Paid up share capital (shares of Rs.10 each fully paid)	93.00

- (f) X Ltd. acquired a fixed asset for Rs. 50,00,000. The estimated useful life of the asset is 5 years. The salvage value after useful life was estimated at Rs.5,00,000. The State Government gave a grant of Rs.10,00,000 to encourage the asset acquisition. At the end of the second year, the subsidy of the State Government became refundable. What is the fixed asset value after refund of grant/subsidy to the State Government but before amortising the asset value at the end of the second year?
25. (a) In X Co. Ltd., theft of cash of Rs.5 lakhs by the cashier in January, 2007 was detected only in May, 2007. The accounts of the company were not yet approved by the Board of Directors of the company.
- Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2007. Decide.
- (b) A machinery costing Rs.10 lakhs has useful life of 5 years. After the end of 5 years, its scrap value would be Rs.1 lakh. How much depreciation is to be charged in the books of the company as per Accounting Standard-6?
- (c) Garden Ltd. acquired fixed assets viz. plant and machinery for Rs.20 lakhs. During the same year it sold its furniture and fixtures for Rs.5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS 3?
- (d) ABC Ltd. gave 50,000 equity shares of Rs.10 each (fully paid up) in consideration for supply of certain machinery by X & Co. The shares exchanged for machinery are quoted on Bombay Stock Exchange (BSE) at Rs.15 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of machinery would be recorded in the books of the company?
- (e) A company took a construction contract for Rs.100 lakhs in January, 2008. It was found that 80% of the contract was completed at a cost of Rs.92 lakhs on the closing date i.e. on 31.3.2009. The company estimates further expenditure of Rs.23 lakhs for completing the contract. The expected loss would be Rs.15 lakhs. Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2009?
- (f) Sony Pharma ordered 12,000 kg. of certain material at Rs.80 per unit. The purchase price includes excise duty Rs.4 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to Rs.77,400. Normal transit loss is 3%. The company actually received 11,600 kg. and consumed 10,100 kg. of material. Compute cost of inventory under AS 2 and abnormal loss.

SUGGESTED ANSWERS / HINTS

1. Journal Entries

Date	Particulars	Dr.	Cr.
		Rs.	Rs.
1.10.2009	10% Debentures A/c	Dr. 10,00,000	
	Premium on Redemption of Debentures A/c	Dr. 40,000	
	To Debenture holders A/c		10,40,000
	(Being transfer of amount due on redemption of 10% debentures – nominal value Rs.10,00,000 plus premium Rs.40,000)		
	Debenture-holders A/c	Dr. 4,16,000	
	To 11% Preference Share Capital A/c		3,20,000
	To Securities Premium a/c		96,000
	(Being issue of 3200 preference shares of Rs.100 each at a premium of Rs.30 each in exchange of 4000 debentures)		
	Debentureholders A/c	Dr. 4,99,200	
	Discount on Issue of 11% Second Debentures A/c	Dr. 20,800	
	To 11% Second Debentures A/c		5,20,000
	(Issue of 5200 11% Second Debentures of Rs.100/- each at a discount of Rs.4 in exchange of 4800 Debentures)		
	Debentureholders A/c	Dr. 1,24,800	
	To Bank A/c		1,24,800
	(Being the redemption of 1200 debentures by cash)		

Working Notes:

(1) Redemption of debentures by issuing preference shares:

	Rs.
Claim of the holders of 4000 debentures @ Rs.104	<u>4,16,000</u>

Number of preference shares to be issued $\left(\frac{\text{Rs.4,16,000}}{130}\right)$	3,200
	Rs.
Face value of preference shares @ Rs.100 each	3,20,000
Premium of preference shares @ Rs.30 each	96,000
(2) Redemption of debentures by issuing 11% Second Debentures:	
	Rs.
Claim of the holders of 4,800 debentures @ Rs.104	<u>4,99,200</u>
Number of 11% Second Debentures to be issued $\left(\frac{\text{Rs.4,99,200}}{\text{Rs.96}}\right)$	5,200
	Rs.
Face value of 11% Second Debentures @ Rs.100 each	5,20,000
Discount on issue of debentures @ Rs.4 each	20,800
(3) Claim of the holders	Rs.
Claim of the holders of 1,200 debentures @ Rs.104	<u>1,24,800</u>
(10,000 – 4,000 – 4,800 = 1,200)	

2. FORM B - RA

Name of the Insurer:

Registration No. and Date of Registration with the IRDA:

Fire Insurance Revenue Account
for the year ended 31st March, 2008

Particulars	Schedule	Amount (Rs.)
(1) Premium earned	1	11,50,000
(2) Other income		-
(3) Interest, dividend and rent		-
Total (A)		<u>11,50,000</u>
(4) Claims incurred	2	5,30,000
(5) Commission	3	3,00,000
(6) Operating expenses related to Insurance business	4	<u>2,00,000</u>
Total (B)		<u>10,30,000</u>
Operating Profit (A)- (B)		<u>1,20,000</u>

Schedule 1 : Premium earned (net)		Rs.
Premium received		13,00,000
Less: Re-insurance premium		<u>1,00,000</u>
Net premium		12,00,000
Adjustment for change in reserve for unexpired risks (Refer W.N.)		<u>50,000</u>
		<u>11,50,000</u>

Schedule 2 : Claims Incurred		Rs.
Claims paid including legal expenses (4,90,000 + 10,000)		5,00,000
Add : Claims outstanding at the end of the year		80,000
Less : Claims outstanding at the beginning of the year		<u>(50,000)</u>
Total claims incurred		<u>5,30,000</u>

Schedule 3 : Commission		Rs.
Commission paid		<u>3,00,000</u>
		<u>3,00,000</u>

Schedule 4: Operating expenses		Rs.
Expenses of management		<u>2,00,000</u>
		<u>2,00,000</u>

Working Note:

Change in the provision for unexpired risk	Rs.
Unexpired risk reserve on 31 st March, 2008 =50% of net premium i.e. 50% of Rs.12,00,000 (See Schedule 1)	6,00,000
Less : Unexpired risk reserve as on 1 st April 2007	<u>5,50,000</u>
Change in the provision for unexpired risk	<u>50,000</u>

3. Journal Entries in the Books of ABC Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.2005	Employees compensation expenses account	Dr. 48,000	
	To Employees stock option outstanding account		48,000
	(Being compensation expenses recognized in respect of the employees stock option i.e. 1,000 options granted to employees at a discount of Rs. 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)		

	Profit and loss account	Dr.	48,000	
	To Employees compensation expenses account			48,000
	(Being expenses transferred to profit and loss account at the end of the year)			
31.3.2006	Employees compensation expenses account	Dr.	48,000	
	To Employees stock option outstanding account			48,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of Rs. 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account	Dr.	48,000	
	To Employees compensation expenses account			48,000
	(Being expenses transferred to profit and loss account at the end of the year)			
31.3.2007	Employees stock option outstanding account (W.N.1)	Dr.	12,000	
	To General Reserve account (W.N.1)			12,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
30.6.2007	Bank A/c (600 x Rs.40)	Dr.	24,000	
	Employee stock option outstanding account (600 x Rs.120)	Dr.	72,000	
	To Equity share capital account (600 x Rs. 10)			6,000
	To Securities premium account (600 x Rs.150)			90,000
	(Being 600 employees stock option exercised at an exercise price of Rs. 40 each)			

01.10.2007	Employee stock option outstanding account	Dr.	12,000	
	To General reserve account			12,000
	(Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of 100 options at the end of exercise of option period)			

Working Note:

On 31.3.2007, ABC Ltd. will examine its actual forfeitures and make necessary adjustments, if any to reflect expenses for the number of options, that have actually vested. 700 employees stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

	Rs.
No. of options actually vested (700 x Rs.120)	84,000
Less: Expenses recognized Rs.(48,000 + 48,000)	<u>96,000</u>
Excess expenses transferred to general reserve	<u>12,000</u>

4.	Trading and Profit and Loss A/c						
	For the year ended 31 st March 2009						
		Head office	Branch		Head office	Branch	
		Rs.	Rs.		Rs.	Rs.	
To	Opening stock	2,25,000	-	By	Sales	27,81,000	9,50,000
To	Purchases	25,50,000	-	By	Goods sent to branch	9,54,000	-
To	Goods received from head office	-	9,54,000	By	Closing stock (W.N.1 & 2)	7,00,000	99,000
To	Gross profit c/d	<u>16,60,000</u>	<u>95,000</u>			<u>44,35,000</u>	<u>10,49,000</u>
		<u>44,35,000</u>	<u>10,49,000</u>			<u>44,35,000</u>	<u>10,49,000</u>
To	Office expenses	90,000	8,500	By	Gross profit b/d	16,60,000	95,000
To	Selling expenses	72,000	6,300				
To	Staff salaries	65,000	12,000				
To	Branch Stock Reserve (W.N.3)	44,000	-				
To	Net Profit	<u>13,89,000</u>	<u>68,200</u>			<u>16,60,000</u>	<u>95,000</u>
		<u>16,60,000</u>	<u>95,000</u>			<u>16,60,000</u>	<u>95,000</u>

Working Notes:

(1) Calculation of closing stock of head office:	Rs.
Opening Stock of head office	2,25,000
Goods purchased by head office	<u>25,50,000</u>
	27,75,000
Less: Cost of goods sold [37,35,000* x 100/180]	<u>20,75,000</u>
	<u>7,00,000</u>

(2) Calculation of closing stock of branch:	
Goods received from head office [At invoice value]	9,54,000
Less: Invoice value of goods sold [9,50,000 x 180/200]	<u>8,55,000</u>
	<u>99,000</u>

(3) Calculation of unrealized profit in branch stock:	
Branch stock	Rs.99,000
Profit included	80% of cost
Hence, unrealized profit would be = Rs. 99,000 x 80/180 =	Rs.44,000

5. (a) Loss to be borne by Equity and Preference Shareholders	Rs.
Profit and loss account (debit balance)	7,00,000
Preliminary expenses	1,00,000
Goodwill	2,00,000
Plant and machinery (Rs. 18,00,000 – Rs. 15,00,000)	3,00,000
Debtors (Rs. 7,50,000 – Rs. 4,00,000)	<u>3,50,000</u>
Amount to be written off	16,50,000
Less: 50% of sundry creditors	<u>3,50,000</u>
Total loss to be borne by the equity and preference shareholders ¹	<u>13,00,000</u>

(b) Share of loss to preference shareholders and equity shareholders
 Total loss of Rs. 13,00,000 being more than 50% of equity share capital i.e. Rs.10,00,000.

* Rs.27,81,000 + Rs.9,54,000

¹ Two years' preference dividend (arrears) have been ignored in the computation of loss to be borne by equity and preference shareholders.

Preference shareholders' share of loss = 20% of Rs. 10,00,000	= Rs. 2,00,000
Equity shareholders' share of loss (Rs. 13,00,000 – Rs. 2,00,000)	= <u>Rs. 11,00,000</u>
Total loss	<u>Rs. 13,00,000</u>

(c) New structure of share capital after reorganisation

Equity shares:	Rs.
20,000 equity shares of Rs. 45 each, fully paid up (Rs. 20,00,000 – Rs. 11,00,000)	9,00,000
Preference shares:	
10,000, 9% preference shares of Rs. 80 each, fully paid up (Rs. 10,00,000 – Rs. 2,00,000)	8,00,000
	<u>17,00,000</u>

(d) Working capital of the reorganized company

Current Assets:	Rs.	Rs.
Stock		3,00,000
Debtors		4,00,000
Cash		<u>1,50,000</u>
		8,50,000
Less: Current liabilities:		
Creditors	3,50,000	
Bank overdraft ²	<u>75,000</u>	<u>4,25,000</u>
Working capital		<u>4,25,000</u>

(e) Balance Sheet of Munna Ltd. (and reduced)
as on 31st March, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital Authorised (issued and paid up)		Fixed Assets	
20,000 Equity shares of Rs. 45 each	9,00,000	Plant and Machinery	15,00,000
10,000, 9% Preference shares of Rs. 80 each	8,00,000	Current Assets	
Unsecured loan		Stock	3,00,000
Term loan with Bank	2,25,000	Debtors	4,00,000

² Current ratio shall be 2 : 1, i.e. total current liabilities shall be 50% of Rs. 8,50,000 (i.e. Rs. 3,00,000 + 4,00,000 + 1,50,000) = Rs. 4,25,000. Therefore, Bank overdraft = Rs. 75,000 (Rs. 4,25,000 less creditors Rs. 3,50,000).

Current liabilities		Cash	1,50,000
Bank overdraft	75,000		
Creditors	<u>3,50,000</u>		
	<u>23,50,000</u>		<u>23,50,000</u>

6.

(i) Calculation of Capital Base			Rs.
Fixed Assets	5,00,00,000		
Less: Consumers' Contribution towards Fixed Assets	<u>4,00,000</u>	4,96,00,000	
Intangible Assets		16,00,000	
Current Assets (Monthly Average)		30,00,000	
Investment against Contingency Reserve		<u>24,00,000</u>	
		5,66,00,000	
Less: Depreciation Reserve	60,00,000		
Loan from Electricity Board	50,00,000		
12% Debentures	40,00,000		
Development Reserve	16,00,000		
Consumers' Deposit	80,00,000		
Tariffs and Dividend Control Reserve	<u>20,00,000</u>	<u>2,66,00,000</u>	
Capital Base		<u>3,00,00,000</u>	
(ii) Calculation of Reasonable Return			Rs.
12% (i.e. Bank Rate 10%+2%) on Rs. 3,00,00,000 i.e. Capital Base		36,00,000	
8% on Reserve Fund Investment (8% on Rs.1,20,00,000)		9,60,000	
$\frac{1}{2}\%$ on Loan from Electricity Board $\left(\frac{1}{2}\%$ on Rs.50,00,000)		25,000	
$\frac{1}{2}\%$ on Debentures $\left(\frac{1}{2}\%$ on Rs.40,00,000)		20,000	
$\frac{1}{2}\%$ on Development Reserve $\left(\frac{1}{2}\%$ on Rs.16,00,000)		<u>8,000</u>	
Reasonable Return		<u>46,13,000</u>	
(iii) Statement showing Disposal of Surplus			Rs.
Clear Profit		56,00,000	
Less: Reasonable Return		<u>46,13,000</u>	
Surplus		9,87,000	

Less: 20% of Reasonable Return	<u>9,22,600</u>
Amount Refundable to Consumers credited to Consumers' Benefit Account	<u>64,400</u>
(iv) Allocation of Surplus upto 20% of Reasonable Return	9,22,600
$\frac{1}{3}$ of Rs.9,22,600 i.e. Rs.3,07,533 limited to 5% of Reasonable Return at the disposal of the company (i.e. 5% of Rs.46,13,000)	<u>2,30,650</u>
Balance	<u>6,91,950</u>
$\frac{1}{2}$ of Balance credited to Tariffs and Dividend Control Reserve	3,45,975
$\frac{1}{2}$ of Balance credited to Consumers' Benefit Account in addition to Rs.64,400	<u>3,45,975</u>
	Rs.
Amount at the Disposal of the Company (Rs.46,13,000+ 2,30,650)	48,43,650
Amount to be credited to Consumers' Benefit Account (Rs.64,400+Rs.3,45,975)	4,10,375
Amount to be transferred to Tariffs and Dividend Control Reserve	<u>3,45,975</u>
	<u>56,00,000</u>

7. Journal Entries

		Rs.	Rs.
1-4-2009	Equity share final call A/c	Dr. 1,80,000	
	To Equity share capital A/c		1,80,000
	(For final calls of Rs.2 per share on 90,000 equity shares due as per Board's Resolution dated....)		
20-4-2009	Bank A/c	Dr. 1,80,000	
	To Equity share final call A/c		1,80,000
	(For final call money on 90,000 equity shares received)		
	Securities Premium A/c (WN-1)	Dr. 20,000	
	Capital Reserve A/c (WN-2)	Dr. 40,000	
	General Reserve A/c	Dr. 1,20,000	

Profit and Loss A/c	Dr.	45,000	
To Bonus to shareholders A/c			2,25,000
(For making provision for bonus issue of one share for every four shares held)			
<hr/>			
Bonus to shareholders A/c	Dr.	2,25,000	
To Equity share capital A/c			2,25,000
(For issue of bonus shares)			
<hr/>			

Extract of Balance Sheet as at 30th April, 2009 (after bonus issue)

Authorised Capital		Rs.
10,000 12% Preference shares of Rs.10 each		1,00,000
1,25,000 Equity shares of Rs.10 each (W.N.2)		12,50,000
Issued and subscribed capital		
8,000 12% Preference shares of Rs.10 each, fully paid		80,000
1,12,500 Equity shares of Rs.10 each, fully paid		11,25,000
(Out of above, 22,500 equity shares @ Rs.10 each were issued by way of bonus)		
Reserves and surplus		
Capital Reserve		35,000
Securities premium		5,000
Profit and Loss Account		1,55,000
Secured Loan		
12% Convertible Debentures @ Rs.100 each		5,00,000

Working Notes:

(1) As per SEBI Guidelines, securities premium collected in cash and capital reserve realized in cash only is to be utilized for issue of bonus shares.

(2) The authorized capital should be increased as per details given below:		Rs.
Existing authorized equity share capital		10,00,000
Add: Issue of bonus shares to equity shareholders (25% of Rs. 9,00,000)		2,25,000
Add: Bonus shares to be issued to debenture holders on conversion (25% of 20% of Rs. 5,00,000)		25,000
		<hr/>
		<u>12,50,000</u>

8.

In the books of Mohan
Investment Account (Shares in Sky Limited)

Date		Particulars	No. of Shares	Income Rs.	Amount Rs.	Date		Particulars	No. of Shares	Income Rs.	Amount Rs.
2007						2007					
April 1	To	Bank (Purchases)	20,000	-	30,000	May 15	By	Bank (Sale)	4,000	-	7,600
May 15	To	Profit & Loss A/c (W.N.1)	-	-	1,600	Sept. 30	By	Bank (Sale of Right of 1,200 shares @ 40 paise per share)	-	-	480
June 15	To	Bonus Issue	4,000	-	Nil	2008					
July 15	To	Bank @ 75 p. paid on 2,000 shares)	2,000	-	1,500	Mar. 15	By	Bank (Dividend @ 15% on Rs.16,000)		2,400	-
Sept. 15	To	Bank @ 75 p. paid on 2,000 shares)	-	-	1,500	Mar. 30	By	Bank (Sale)	10,000	-	14,000
2008	To	Profit & Loss A/c (W.N.2)			1,945		By	Balance c/d	12,000	-	14,465
Sept. 31	To	Profit & Loss A/c	-	2,400	-			$\left(\frac{12,000}{22,000} \times 26,520\right)$			
			<u>26,000</u>	<u>2,400</u>	<u>36,545</u>				<u>26,000</u>	<u>2,400</u>	<u>36,545</u>

Working Notes:

(1) Sale on 15-5-2007:

Cost of 4,000 shares @ Rs.1.50	Rs.6,000	
Sales price	<u>Rs.7,600</u>	
Profit		Rs.1,600

(2) Cost of 10,000 shares sold:

Cost of 22,000 shares (24,000 + 3,000)	Rs.27,000	
Less: Amount received from rights	<u>Rs.480</u>	
Cost of 22,000 shares		Rs.26,520
∴ Cost of 10,000 shares $\left(\frac{\text{Rs.26,520}}{22,000 \text{ shares}} \times 10,000 \text{ shares} \right)$		Rs.12,055
Profit on 10,000 shares (Rs.14,000 – Rs.12,055)		Rs.1,945

9. (a) Statement showing cash value of the machine acquired on hire-purchase basis

	Instalment Amount	Interest @ 5% half yearly (10% p.a.) = $\frac{5}{105} = \frac{1}{21}$ (in each instalment)	Principal Amount (in each instalment)
	Rs.	Rs.	Rs.
5th Instalment	6,000	286	5,714
Less: Interest	<u>- 286</u>		
	5,714		
Add: 4th Instalment	<u>6,000</u>		
	11,714	558	5,442
Less: Interest	<u>558</u>		(11,156-5,714)
	11,156		
Add: 3rd instalment	<u>6,000</u>		
	17,156	817	5,183
Less: Interest	<u>817</u>		(16,339-11,156)
	16,339		
Add: 2nd instalment	<u>6,000</u>		
	22,339	1,063	4,937
Less: Interest	<u>1,063</u>		(21,276-16,339)

	21,276		
Add: 1st instalment	<u>6,000</u>		
	27,276	1,299	4,701
Less: Interest	<u>1,299</u>	_____	<u>(25,977-21,276)</u>
	<u>25,977</u>	<u>4,023</u>	<u>25,977</u>

The cash purchase price of machinery is Rs. 25,977.

(b) In the books of Gayatri Ltd.

Hire Purchase Trading Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2008	To Balance b/d:		31.3.2009	By Cash A/c	1,60,000
	Stock with Customers	80,000	31.3.2009	By Stock Reserve A/c (Note 1)	20,000
	H.P. Debtors	6,000	31.3.2009	By Goods Sold on H.P. A/c (Note 2)	44,000
31.3.2009	To Goods Sold on H.P. A/c	1,76,000	31.3.2009	By Balance c/d:	
31.3.2009	To Stock Reserve A/c (Note 3)	23,000		Stock out with Customers	92,000
				H.P. Debtors (Note 4)	10,000
31.3.2009	To Profit and Loss A/c	<u>41,000</u>			
		<u>3,26,000</u>			<u>3,26,000</u>

Working Notes:

- (1) Loading on opening balance of stock with customers
= $25/100 \times \text{Rs. } 80,000 = \text{Rs. } 20,000$.
- (2) Loading on goods sold on H.P. = $25/100 \times \text{Rs. } 1,76,000 = \text{Rs. } 44,000$.
- (3) Loading on closing balance of stock with customers
= $25/100 \times \text{Rs. } 92,000 = \text{Rs. } 23,000$.

- (4) Closing balance of instalments due (H.P. Debtors) at the end is calculated as follows:

Memorandum Hire Purchase Debtors Account

Dr.		Rs.	Particulars	Rs.	Cr.
To	Balance b/d	6,000	By	Cash A/c	1,60,000
To	Stock out with Customers A/c (Note 5)	1,64,000	By	Balance c/d	10,000
		<u>1,70,000</u>			<u>1,70,000</u>

- (5) Memorandum Stock out with Customers Account

Dr.		Rs.	Particulars	Rs.	Cr.
To	Balance b/d (given)	80,000	By	H.P. Debtors A/c	1,64,000
To	Goods sold on H.P. A/c (given)	1,76,000		(Balancing figure)	
			By	Balance c/d	92,000
		<u>2,56,000</u>		(given)	<u>2,56,000</u>

- (6) Memorandum Stock at Shop Account

Dr.		Rs.	Particulars	Rs.	Cr.
To	Balance b/d	10,000	By	Goods sold on H.P. A/c	
To	Purchases	1,36,000		(at cost) ($\frac{3}{4} \times$ Rs. 1,76,000)	1,32,000
			By	Balance c/d	<u>14,000</u>
		<u>1,46,000</u>			<u>1,46,000</u>

Note: Stock in the shop (opening and closing balance) and purchases will not be considered in the Hire Purchase Trading Account. The Memorandum Stock at Shop Account has been prepared for reconciliation purposes only.

10. Cash Flow Statement for the year ended December 31, 2008

Cash Flows from Operating Activities (indirect method)	Rs.
Profit before Tax	2,95,000
Add: Depreciation (Non-Cash expense)	1,10,000

Interest (Non-operating expense)	70,000	
Less: Non-operating Income	<u>(25,000)</u>	
Operating Profit	4,50,000	
Add: Decrease in Bills Receivable	5,000	
Decrease in Debtors	30,000	
Increase in Creditors	25,000	
Less: Increase in Stock	<u>(10,000)</u>	
Cash flow from operation before tax	5,00,000	
Less: Tax paid	<u>(1,30,000)</u>	
Cash provided by Operating Activities		3,70,000
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(2,60,000)	
(10,00,000 + 1,10,000 – 8,50,000)		
Dividend on Investments	<u>25,000</u>	
Cash used in Investing Activities		(2,35,000)
Cash Flows from Financing Activities		
Long term loan taken	30,000	
Interest paid	(70,000)	
Dividend Paid	<u>(90,000)</u>	
Income from Financing Activities		<u>(1,30,000)</u>
Net Increase in Cash during the year		5,000
Add: Opening Cash Balance		<u>30,000</u>
Closing Cash Balance		<u>35,000</u>

Calculation of Cash Flows from Operating activities (Direct Method)

	Rs.	Rs.
Received from customers: Sales	20,40,000	
Add: Decrease in Debtors	30,000	
Decrease in B/R	<u>5,000</u>	20,75,000
Less: Payments to suppliers:		
Cost of sales	13,60,000	
Add: Increase in stock	10,000	
Less: Increase in creditors	<u>(25,000)</u>	<u>(13,45,000)</u>

	7,30,000
Less: Payment for expenses	(2,30,000)
Tax paid	<u>(1,30,000)</u>
Cash provided by operating activities	<u>3,70,000</u>

11. (i) Revaluation Account

Dr.				Cr.
		Rs.		Rs.
To Furniture		870	By Building	3,200
To Stock		1,070	By Sundry creditors	1,400
To Provision of doubtful debts (Rs. 1,750 – Rs. 200)		1,550	By Investment	450
To Outstanding wages		<u>1,560</u>		<u> </u>
		<u>5,050</u>		<u>5,050</u>

(ii) Partners' Capital Accounts

	A	B	C		A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Balance c/d	71,000	54,000	25,000	By Balance b/d	44,000	36,000	-
				By Cash A/c	-	-	25,000
				By Goodwill A/c (W.N.)	<u>27,000</u>	<u>18,000</u>	<u> </u>
	<u>71,000</u>	<u>54,000</u>	<u>25,000</u>		<u>71,000</u>	<u>54,000</u>	<u>25,000</u>

(iii) Balance Sheet of New Partnership Firm
(after admission of C) as on 1.1.2009

Liabilities	Rs.	Assets	Rs.
Sundry Creditors (12,900 – 1,400)	11,500	Goodwill	45,000
Bills Payable	4,100	Building (26,000 + 3,200)	29,200
Bank Overdraft	9,000	Furniture (5,800 – 870)	4,930
Outstanding wages	1,560	Stock-in-trade (21,400 – 1,070)	20,330
Capital Accounts:		Debtors	35,000
		Less: Provision for bad debts	<u>1,750</u>
			33,250

A	71,000		Investment (2,500 + 450)	2,950
B	54,000		Cash (15,500 + 25,000)	40,500
C	<u>25,000</u>	<u>1,50,000</u>		
		<u>1,76,160</u>		<u>1,76,160</u>

Working Note:

Calculation of goodwill

C's contribution of Rs. 25,000 consists only 1/6th of capital.

Therefore, total capital of firm should be Rs. 25,000 × 6 = Rs. 1,50,000.

But combined capital of A, B and C amounts

Rs. 44,000 + 36,000 + 25,000 = Rs. 1,05,000.

Thus, Hidden goodwill is Rs. 45,000 (Rs. 1,50,000 – Rs. 1,05,000).

12. Trading and Profit and Loss Account for the year ended 31.03.09

Dr.		Rs.		By		Dr.		Rs.	
To	Opening Stock	30,000		By	Sales	4,60,000			
To	Purchases	3,20,000		By	Closing Stock	52,000			
To	Gross Profit c/d	1,62,000							
		<u>5,12,000</u>						<u>5,12,000</u>	
		Pre-Incorpo- ration	Post-Incorpo- ration			Pre-Incorpo- ration	Post-Incorpo- ration		
		Rs.	Rs.			Rs.	Rs.		
To	Salaries	12,000	36,000	By	Gross Profit c/d	40,500	1,21,500		
To	Directors' fee	-	12,000	By	Commission	-	3,000		
To	Discount	1,250	3,750						
To	Depreciation:								
	Building	1,000	3,000						
	Furniture	250	750						
To	Pre-incorporation Profit transferred to Capital	26,000	-						

	Reserve Account			
To	Net Profit	-	69,000	
		<u>40,500</u>	<u>1,24,500</u>	<u>40,500</u> <u>1,24,500</u>

Note: Apportionment has been made in the Profit and Loss Account between pre-incorporation and post-incorporation period using the following basis.

Item	Base	Ratio
Gross Profit	Time	1 : 3
Salaries	Time	1 : 3
Discount	Time	1 : 3
Directors' Fees		100% to post-incorporation period
Commission		100% to post-incorporation period

Balance Sheet as on 31.3.2009

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital:			Fixed Assets:		
30,000 equity shares of Rs.10 each Rs.8 called-up	2,40,000		Building	80,000	
			Less: Depreciation	<u>4,000</u>	76,000
Less: Calls in Arrear (of the above 10,000 shares are allotted pursuant to a contract without payments being received in cash)	<u>2,000</u>	2,38,000	Furniture & Fittings	10,000	
			Less: Depreciation	<u>1,000</u>	9,000
Share Suspense A/c (400 shares to be issued to the underwriter in consideration of under-writing commission on completion of share issue)		4,000	Investments		Nil
			Current Assets, Loans & Advances:		

Reserve & Surplus:			(A) Current Assets:		
Capital Reserve	26,000		Stock	52,000	
Less: Goodwill w/o	<u>16,000</u>	10,000	Debtors	1,31,000	
Profit & Loss A/c		69,000	Cash	<u>91,000</u>	2,74,000
Secured Loans		Nil			
Unsecured loans		Nil	(B) Loans and Advances		Nil
Current Liabilities and Provisions:			Miscellaneous Expenditure:		
(A) Current Liabilities:			Preliminary Expenses	10,000	
Sundry Creditors	48,000		Underwriting Commission	<u>4,000</u>	14,000
Calls in Advance	<u>4,000</u>	52,000			
(B) Provisions		Nil			
		<u>3,73,000</u>			<u>3,73,000</u>

Working Notes:

(1) Goodwill on acquisition

Purchase consideration:	Rs.	Rs.
10,000 equity shares of Rs.10 each, Rs.8 paid up		80,000
Cash		<u>56,000</u>
		1,36,000
Less: Assets taken over		
Building	80,000	
Furniture and Fittings	10,000	
Stock	<u>30,000</u>	<u>1,20,000</u>
Goodwill		<u>16,000</u>

(2) Cash Inflows from public issue of equity shares

	Rs.
20,000 equity shares of Rs.10 each Rs.8 called up	1,60,000
Less: Calls in arrear on 1,000 shares @ Rs.2 per share	<u>2,000</u>
	1,58,000

Add: Calls-in-advance on 2000 shares @ Rs.2 4,000
1,62,000

- (3) Underwriting Commission 2% on face value Rs.2,00,000 4,000

Underwriting Commission becomes due on completion of the job relating to shares underwritten. It appears that the job relating to public issue was not finished till 31st March, 2009. So a Share Suspense Account should be created showing the amount of shares to be issued to the underwriter in discharge of his claim for commission

- (4) Cash collection from Company's debtors

Total Debtors Account							
		Vendor's Debtors	Company's Debtors			Vendor's Debtors	Company's Debtors
		Rs.	Rs.			Rs.	Rs.
To	Balance b/d	90,000	-	By	Discount	1,000	5,000
To	Sales		4,60,000 ³	By	Cash	60,000	3,24,000 ⁴
				By	Balance c/d	<u>29,000</u>	<u>1,31,000⁵</u>
		<u>90,000</u>	<u>4,60,000</u>			<u>90,000</u>	<u>4,60,000</u>

- (5) Cash payment for purchases

Dr.		Total Creditors Account		Cr.	
		Rs.		Rs.	
To	Cash (Balancing figure)	2,72,000	By	Purchases	3,20,000 ⁶
To	Balance c/d	<u>48,000</u>			
		<u>3,20,000</u>			<u>3,20,000</u>

- (6) Summary Cash Book

Dr.		Rs.		Cr.	
		Rs.		Rs.	
To	Share Capital A/c	1,62,000	By	Total Creditors A/c	
To	Total Debtors A/c:			Payment to creditors	2,72,000

³ Assumed that all sales were on credit.

⁴ Balancing figure.

⁵ Total Debtors Rs.1,60,000 minus Vendor's Debtors Rs.29,000.

⁶ Assumed that all purchases were on credit.

Collection from company's debtors	3,24,000	By	Vendor's A/c: Purchase consideration	56,000
Collection from vendor's debtors	60,000	By	Preliminary Expenses	10,000
		By	Directors' Fees	12,000
		By	Salaries	48,000
		By	Vendor's A/c (Collection less commission Rs.3,000)	57,000
	<u> </u>	By	Balance c/d	<u>91,000</u>
	<u>5,46,000</u>			<u>5,46,000</u>

13. (i) Number of shares to be issued by Strong Ltd. to Weak Ltd. against purchase consideration

		Rs.	Rs.
Weak Ltd.			
Goodwill			2,00,000
Fixed Assets		20,00,000	
Less: Depreciation		<u>(50,000)</u>	
		19,50,000	
Add: Appreciation		<u>1,00,000</u>	20,50,000
Stock			6,00,000
Debtors			9,00,000
Cash and Bank balances		3,50,000	
Add: Profit after depreciation	2,00,000		
Add: Depreciation (non-cash)	<u>50,000</u>	2,50,000	
Less: Dividend		<u>(3,00,000)</u>	<u>3,00,000</u>
			40,50,000
Less: Creditors			<u>(3,00,000)</u>
Purchase Consideration			<u>37,50,000</u>

- (ii) Calculation of Net Current Assets as on 01.07.2009

	Strong Ltd.	Weak Ltd.
	Rs.	Rs.
Current assets:		
Stock	8,00,000	6,00,000

Debtors		14,00,000		9,00,000
Cash and Bank	12,00,000		3,50,000	
Less: Dividend	(5,00,000)		(3,00,000)	
Add: Profit before depreciation	<u>4,75,000</u>	<u>11,75,000</u>	<u>2,50,000</u>	<u>3,00,000</u>
		33,75,000		18,00,000
Less: Creditors		<u>5,00,000</u>		<u>3,00,000</u>
		<u>28,75,000</u>		<u>15,00,000</u>

(iii) Profit and Loss Account balance of Strong Ltd. as on 1.07.2009

	Rs.
P & L A/c balance as on 31.03.2009	6,00,000
Less: Dividend paid	<u>5,00,000</u>
	1,00,000
Add: Estimated profit for 3 months after charging depreciation	<u>4,00,000</u>
	<u>5,00,000</u>

(iv) Fixed Assets as on 01.07.2009

		Rs.
Fixed Assets of Strong Ltd. as on 31.03.2009		30,00,000
Less: Depreciation for 3 months		75,000
		<u>29,25,000</u>
Fixed assets taken over by Weak Ltd. as on 31.03.2009	20,00,000	
Less: Proportionate depreciation for 3 months on fixed assets		<u>50,000</u>
	19,50,000	
Add: Appreciation above the estimated book value	<u>1,00,000</u>	<u>20,50,000</u>
		<u>49,75,000</u>

(v) Balance Sheet of Strong Ltd. as on 01.07.2009 (after Take Over)

Liabilities	Rs.	Assets	Rs.
Equity Share capital:		Goodwill	2,00,000
87500 (50,000+ 37,500)		Fixed assets	49,75,000
shares of Rs.100 each	87,50,000	[as computed in (iv)]	
Reserves	4,00,000	Stock	14,00,000

Profit and Loss Account [as computed in (iii)]	5,00,000	(8,00,000 + 6,00,000)	
Creditors (5,00,000 + 3,00,000)	8,00,000	(14,00,000 + 9,00,000)	
		Cash and Bank (11,75,000+ 3,00,000)	14,75,000
		Preliminary expenses	<u>1,00,000</u>
	<u>1,04,50,000</u>		<u>1,04,50,000</u>

14. Statement of Affairs of Mr. Zenith

Gross Liabilities	Expected Assets	Book Value	Estimated to Produce
Rs.	Rs.	Rs.	Rs.
20,150 Unsecured Creditors as per List 'A'	20,150	Properties as per List E	
4,000 Fully secured creditors as per List B		Stock	4,500
Overdraft	4,000	Machinery	5,500
Less: Estimated value of security	<u>10,000</u>	Debtors as per List F	
Surplus as per Contra	<u>6,000</u>	Good	4,000
5,000 Partly secured creditors as per List C		Doubtful	1,000
Private Loan	5,000	Bad	-
Estimated value of security	<u>3,000</u>	Bills of exchange as per List G	-
250 Preferential Creditors as per List D			<u>14,500</u>
Salary outstanding	250	Add: Surplus as per Contra	<u>6,000</u>
Deducted as Contra	<u>250</u>	Less: Preferential Creditors as per List D (Contra)	<u>250</u>
		Deficiency as per List H	<u>1,900</u>
<u>29,400</u>	<u>22,150</u>		<u>22,150</u>

15. (a)

	(Rs. in lakhs)
Doubtful Assets (more than 3 years)	1,000
Less: Value of security (excluding DICGC cover)	<u>400</u>
	600
Less: 100% DICGC cover of Rs.100 lakhs	<u>100</u>
Unsecured portion	<u>500</u>
Provision thereon:	
for unsecured portion @ 100%	500 lakhs
for secured portion @ 100% w.e.f. 31.3.2007	<u>400 lakhs</u>
Total provision to be made	<u>900 lakhs</u>

(b) Calculation of amount of provision to be made in the Profit and Loss Account

Classification of Assets	Amount of advances (Rs. in lakhs)	% age of provision	Amount of provision (Rs. in lakhs)
Standard assets	20,000	0.40	80
Sub-standard assets	16,000	10*	1,600
Doubtful assets:			
For one year (secured)	6,000	20	1,200
For two to three years (secured)	4,000	30	1,200
For more than three years (unsecured)	1,400	100	1,400
(secured)	600	100	600
Non-recoverable assets (Loss assets)	1,500	100	<u>1,500</u>
Total provision required			<u>7,580</u>

16.

Trading and Profit & Loss Account
for the year ended 31.12.2008

Dr.	Rs.	By	Rs.
To Opening stock	50,000	By Sales (W.N.8)	3,25,000
To Purchases (W.N.7)	2,72,500	By Closing stock	62,500
To Gross profit (W.N.6)	<u>65,000</u>		
	<u>3,87,500</u>		<u>3,87,500</u>
To Expenses	49,250	By Gross profit	65,000

* Sub-standards assets have been assumed as fully secured.

To	Loss on sale of fixed asset	750	
To	Depreciation on fixed assets	1,000	
To	Net Profit	<u>14,000</u>	
		<u>65,000</u>	<u>65,000</u>

Balance Sheet as at 31.12.2008

Liabilities	Rs.	Rs..	Assets	Rs.
Capital as on 1.1.2007	1,69,000		Fixed Assets	9,000
Add: Net profit	14,000		Debtors	87,500
Additional capital	<u>5,000</u>		Stock	62,500
	1,88,000		Bank	50,000
Less: Drawings	<u>25,000</u>	1,63,000		
Creditors		<u>46,000</u>		
		<u>2,09,000</u>		<u>2,09,000</u>

Working Notes:

1. Balance Sheet as at 1.1.2008

Liabilities	Rs.	Assets	Rs.
Capital (Bal. Fig.)	1,69,000	Fixed Assets	7,500
Creditors	53,500	Debtors	1,02,500
		Stock	50,000
		Bank Balance	<u>62,500</u>
			<u>2,22,500</u>
	<u>2,22,500</u>		<u>2,22,500</u>

2. Bank Account

Dr.	Rs.	Cr.	Rs.
To Balance b/d (Bal. Fig.)	62,500	By Creditors	2,80,000
To Debtors	3,40,000	By Expenses	49,250
To Capital	5,000	By Drawings	25,000
To Fixed Assets	1,750	By Fixed Assets (purchased)	5,000
		By Balance c/d	<u>50,000</u>
	<u>4,09,250</u>		<u>4,09,250</u>

3. Debtors Account

Dr.		Rs.		Cr.	
				Rs.	
To	Balance b/d (Bal. Fig.)	1,02,500	By	Bank	3,40,000
To	Sales (W.N.8)	<u>3,25,000</u>	By	Balance c/d	<u>87,500</u>
		<u>4,27,500</u>			<u>4,27,500</u>

4. Creditors Account

Dr.		Rs.		Cr.	
				Rs.	
To	Bank	2,80,000	By	Balance b/d (Bal. Fig.)	53,500
To	Balance c/d	<u>46,000</u>	By	Purchases (W.N.7)	<u>2,72,500</u>
		<u>3,26,000</u>			<u>3,26,000</u>

5. Fixed Assets Account

Dr.		Rs.		Cr.	
				Rs.	
To	Balance b/d	7,500	By	Bank (Sale)	1,750
To	Bank	5,000	By	Profit and Loss A/c (loss on sale)	750
			By	Depreciation (Bal. Fig.)	1,000
		<u> </u>	By	Balance c/d	<u>9,000</u>
		<u>12,500</u>			<u>12,500</u>

6. Gross Profit
 $\text{Rs. } 2,60,000 \times 25\% = \text{Rs. } 65,000.$

7. Cost of goods sold
 $\text{Cost of goods sold} = \text{Opening stock} + \text{Purchases} - \text{Closing stock}$
 $\text{Rs. } 2,60,000 = \text{Rs. } 50,000 + \text{Purchases} - \text{Rs. } 62,500$
 $\text{Purchases} = \text{Rs. } 2,72,500.$

8. Sales
 $\text{Sales} = \text{Cost of goods sold} + \text{gross profit}$
 $= \text{Rs. } 2,60,000 + \text{Rs. } 65,000$
 $= \text{Rs. } 3,25,000.$

17. (a) Statement of liabilities of B list contributories							
Share-holders	No. of shares transferred	Maximum liability (upto Rs. 2 per share) Rs.	Division of Liability as on				Total Rs.
			1.5.2003 Rs.	1.10.2003 Rs.	1.11.2003 Rs.	1.2.2004 Rs.	
P	1,500	3,000	1,500	–	–	–	1,500
Q	1,000	2,000	1,000	555	–	–	1,555
R	500	1,000	500	278	188	–	966
S	<u>300</u>	<u>600</u>	<u>300</u>	<u>167</u>	<u>112</u>	<u>21</u>	<u>600</u>
	<u>3,300</u>	<u>6,600</u>	<u>3,300</u>	<u>1,000</u>	<u>300</u>	<u>21</u>	<u>4,621</u>

Working Note:

Date	Cumulative liability	Increase in liability	Ratio of no. of shares held by the members
1.5.2008	3,300	–	30 : 20 : 10 : 6
1.10.2008	4,300	1,000	20 : 10 : 6
1.11.2008	4,600	300	10 : 6
1.2.2009	6,000	1,400	Only S

Liability of S has been restricted to the maximum allowable limit of Rs. 600, therefore amount payable by S is restricted to Rs. 21 only, on 1.2.2009.

Notes:

1. A will not be liable to pay to the outstanding creditors since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 1st May, 2008 (from the date when he ceases to be member). Similarly, Q and R will not be responsible for the debts incurred after the date of their transfer of shares.

(b) Liquidators' Final Statement of Account

Receipts	Rs.	Payments	Rs.
Cash	4,13,000	Return to contributors:	
Realisation from:		Preference dividend	33,000
Calls in arrears	10,000	Preference shareholders	3,00,000
Final call of Rs. 5 per equity share of Rs. 50 each		Calls in advance	5,000
		Equity shareholders of	

(Rs. 5 × 1,000)	<u>5,000</u>	Rs. 100 each (3,000 × Rs. 30)	<u>90,000</u>
	<u>4,28,000</u>		<u>4,28,000</u>

Working Note:

		Rs.
Cash account balance		4,13,000
Less: Payment for dividend	33,000	
Preference shareholders	3,00,000	
Calls in advance	<u>5,000</u>	<u>3,38,000</u>
		75,000
Add: Calls in arrears		<u>10,000</u>
		85,000
Add: Amount to be received from equity shareholders of Rs. 50 each (1,000 × 20)		<u>20,000</u>
Amount disposable		<u>1,05,000</u>

Number of equivalent equity shares:

3,000 shares of Rs. 100 each	=	6,000 shares of Rs. 50 each
1,000 shares of Rs. 50 each	=	<u>1,000</u> shares of Rs. 50 each
	=	7,000 shares of Rs. 50 each

$$\text{Final payment to equity shareholders} = \frac{\text{Amount left for distribution}}{\text{Total number of equivalent equity shares}}$$

= Rs. 1,05,000 / 7,000 shares = Rs. 15 per share to equity shareholders of Rs. 50 each.

$$\text{Therefore for equity shareholders of Rs. 100 each} \left(\text{Rs. } 15 \times \frac{100}{50} \right)$$

= Rs. 30 per share to equity shareholders of Rs. 100 each.

Calls in advance must be paid first, so as to pay the shareholders on prorata basis. Equity shareholders of Rs. 50 each have to pay Rs. 20 and receive Rs. 15 each. As a result, they are required to pay net Rs. 5 per share.

18. (i) Revaluation Account

		Rs.		Rs.
To Building	50,000	By Investments	15,000	
To Machinery	1,30,000	By Partners' capital A/cs		

		doubtful debts	<u>1,39,000</u>	5,56,000
Sundry creditors	<u>8,00,000</u>	Cash at bank (W.N.1)		<u>4,87,800</u>
	<u>34,28,800</u>			<u>34,28,800</u>

Working Notes:

- Bank Account

		Rs.			Rs.
To	A's capital A/c	27,000	By	Balance (Overdraft)	b/d 2,20,000
To	C's capital A/c	3,80,800	By	Balance (Bal. fig.)	c/d 4,87,800
To	D's capital A/c	<u>3,00,000</u>			
		<u>7,07,800</u>			<u>7,07,800</u>
- Goodwill, already shown in the Balance Sheet of Rs. 1,00,000, is firstly written off and then an adjusting entry is passed for revalued goodwill of Rs. 5,00,000 in sacrificing and gaining ratio of partners. This treatment is given based on the para 36 of AS 10, which states that goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it.
- Calculation of sacrificing and gaining ratio

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

Adjusting Entry

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

(Being goodwill adjusted through capital accounts of partners)

4. Capitals of A, C and D as per new ratio		Rs.
Total Capital of the firm after admission		<u>10,00,000</u>
A's share =	$10,00,000 \times \frac{2}{5}$	4,00,000
C's share =	$10,00,000 \times \frac{2}{5}$	4,00,000
D's share =	$10,00,000 \times \frac{1}{5}$	2,00,000

19. Departmental Trading Account for the year ended on 31st March, 2009

Particulars	A	B	C	Particulars	A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Opening Stock	11,520	8,640	12,240	By Sales	2,44,800	5,18,400	7,48,800
To Purchases	96,000	2,16,000	2,88,000	By Closing Stock	9,600	17,280	720
To Gross Profit	<u>1,46,880</u>	<u>3,11,040</u>	<u>4,49,280</u>				
	<u>2,54,400</u>	<u>5,35,680</u>	<u>7,49,520</u>		<u>2,54,400</u>	<u>5,35,680</u>	<u>7,49,520</u>

Working Notes:

(1) Profit Margin Ratio

Selling price of unit purchased:	Rs.
Department A 6,000 x 40	2,40,000
Department B 12,000 x 45	5,40,000
Department C 14,400 x 50	<u>7,20,000</u>
Total Selling Price	15,00,000
Less: Purchase (Cost) Value	<u>6,00,000</u>
Gross Profit	<u>9,00,000</u>

$$\text{Profit Margin Ratio} = \frac{9,00,000}{15,00,000} \times 100 = 60\%$$

(2) Statement showing department-wise per unit Cost and Purchase Cost

	A	B	C
Selling Price (Per unit) Rs.	40	45	50
Less: Profit Margin @ 60% Rs.	<u>24</u>	<u>27</u>	<u>30</u>
Purchase price per unit Rs.	<u>16</u>	<u>18</u>	<u>20</u>

No. of units purchased	6,000	12,000	14,400
(Cost per unit x Units purchased)	96,000	2,16,000	2,88,000

(3) Statement showing calculation of department-wise Opening Stock (in Units)

	A	B	C
Sales (Units)	6,120	11,520	14,976
Add: Closing Stock (Units)	<u>600</u>	<u>960</u>	<u>36</u>
	6,720	12,480	15,012
Less: Purchases (units)	<u>6,000</u>	<u>12,000</u>	<u>14,400</u>
Opening Stock (Units)	<u>720</u>	<u>480</u>	<u>612</u>

(4) Statement showing department-wise cost of Opening Stock and Closing Stock

	A	B	C
Cost of Opening Stock (Rs.)	720x16	480x18	612x20
	Rs. <u>11,520</u>	<u>8,640</u>	<u>12,240</u>
Cost of Closing Stock	600 x 16	960x18	36x20
	Rs. <u>9,600</u>	<u>17,280</u>	<u>720</u>

20. (a) Profit and Loss Account (below the line)
for the year ended 2008

	Rs.		Rs.
To Depreciation	31,200	By Profit	10,00,000
To Provision for income tax	80,000		
To Net profit c/d	<u>8,88,800</u>		<u> </u>
	<u>10,00,000</u>		<u>10,00,000</u>
To Reserve fund	1,77,760	By Balance b/d	80,000
To Proposed preference dividend (1,82,000 + 93,450)	2,75,450	By Net profit b/d	8,88,800
To Proposed equity dividend (1,40,000 + 1,86,900)	3,26,900		
To Bonus to employees (14,000 + 18,690)	32,690		
To Balance c/d	<u>1,56,000</u>		<u> </u>
	<u>9,68,800</u>		<u>9,68,800</u>

Working Note:

Balance of amount available for Preference and Equity shareholders and Bonus for Employees	Rs.
Credit Side	9,68,800
Less:Dr. side [1,77,760 + 1,82,000+1,40,000+14,000 + 1,56,000]	<u>6,69,760</u>
	<u>2,99,040</u>

Suppose remaining balance after staff bonus is x

$$\text{Preference shareholders will get share from remaining balance} = x \times \frac{1}{3} = \frac{1}{3} x$$

$$\text{Equity shareholders will get share from remaining balance} = x \times \frac{2}{3} = \frac{2}{3} x$$

$$\text{Bonus to Employees} = \frac{2}{3} x \times \frac{10}{100} = \frac{2}{30} x$$

$$\frac{2}{3} x + \frac{1}{3} x + \frac{2}{30} x = 2,99,040$$

$$32 x = 89,71,200$$

$$x = 89,71,200/32 = \text{Rs.}2,80,350$$

$$\text{Share of preference shareholders} = \text{Rs.} 2,80,350 \times \frac{1}{3} = \text{Rs.}93,450$$

$$\text{Share of equity shareholders} = \text{Rs.}2,80,350 \times \frac{2}{3} = \text{Rs.}1,86,900$$

$$\text{Bonus to employees} = \text{Rs.}2,80,350 \times \frac{2}{30} = \text{Rs.}18,690$$

(b)

Calculation of remuneration of the Managing Director	Rs. in Lacs
Net profit as per books	43.00
Add: Provision for taxation	<u>17.20</u>
Annual profit for the purpose of managerial remuneration	<u>60.20</u>
Managing Director's Remuneration @ 5% of above	3.01
Minimum remuneration to be paid to the Managing Director = Rs.25,000 per month × 12	3.00

Hence, in this case, remuneration to be paid to the Managing Director of A Ltd. = Rs.3,01,000.

21. (a) Fund based accounting essentially involves preparation of financial statements fund-wise. Not-for-profit organisations, particularly educational institutions, sometimes maintain separate account or fund for specific activities of the organisation such as sports prizes, refreshments, and presentation of information in financial statements is made fund wise. In such cases, contribution and donations for income from and expenses on those activities are not recorded in income and expenditure account but are directly adjusted in specific fund account.
- (b) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a pre-determined result or outcome. Financial statements are said to depict the true and fair view of the business of the organization by virtue of neutrality.
- (c) Following are the examples of the areas in which different accounting policies may be adopted by different enterprises:
- (i) Methods of depreciation, depletion and amortisation.
 - (ii) Treatment of expenditure during construction.
 - (iii) Valuation of inventories.
 - (iv) Treatment of goodwill.
 - (v) Valuation of investments.
 - (vi) Valuation of fixed assets.
- (d) The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. The framework suggests that the financial statements should observe and maintain the following four qualitative characteristics as far as possible within limits of reasonable cost/ benefit.
1. **Understandability:** The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities. It is not right to think that more disclosures are always better. A mass of irrelevant information creates confusion and can be even more harmful than non-disclosure. No relevant information can be however withheld on the grounds of complexity.
 2. **Relevance:** The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its omission or misstatement can influence economic decisions of a user.

3. Reliability: To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless:
 - (a) Transactions and events reported are faithfully represented.
 - (b) Transactions and events are reported in terms of their substance and economic reality not merely on the basis of their legal form. This principle is called the principle of 'substance over form'.
 - (c) The reporting of transactions and events are neutral, i.e. free from bias.
 - (d) Prudence is exercised in reporting uncertain outcome of transactions or events.
 4. Comparability: Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.
 5. True and Fair View: Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The conceptual framework does not deal directly with this concept of true and fair view, yet the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements portraying true and fair view of information about an enterprise.
- (e) A suitable designed accounting system can be used for extracting the following information:
- Crop wise performance and overall performance
 - Comprehensive information regarding yield, revenue, input and cost
 - Financial State of Affairs i.e. assets and liabilities at a particular point of time
 - Profit / Loss of the farm
 - Data Base for other decisions namely
 - Acquisition of assets or hire service for ploughing, irrigation, weeding etc
 - Replacement of draught animal, farm, machinery
 - Selection of crop mix
 - Choosing farm size
 - Supporting data to the lenders
 - Reliable source document for assessment of agriculture income tax
- (f) In India, government accounts are kept in three main parts, i.e. Consolidated fund, Contingency Fund and Public Account.

The Consolidated Fund is further classified into: (i) Revenue and Expenditure Heads; (ii) Capital Receipts and Disbursement Heads; and (iii) Public Debt, Loans and Advance. To this fund all monies raised and received through taxation, borrowings, etc are credited, and from this, all expenditures are met as per authorization of Parliament at the centre and legislatures in the states.

In Part II, namely Contingency Fund of the accounts, the transactions connected with the Contingency Fund set up by the Government of India or of a State or Union Territory Government are recorded.

In Part III, namely Public Account of the Accounts, the transactions relating to 'Debt' (other than those included in Part I), 'Deposits', 'Advance', 'Remittances', and 'Suspense' are recorded. There being no separate Public Accounts in the case of Union Territory Governments, the transactions pertaining to this account are booked in the Public Account of the Central Government.

22. (a) AS 6 on 'Depreciation Accounting', is not applicable in respect of following assets:
- (a) Forest, plantations and similar regenerative natural resources.
 - (b) Goodwill.
 - (c) Livestock.
 - (d) Wasting assets including expenditure on the exploration for and extraction of minerals, oils, natural gas and similar non-regenerative resources.
- (b) According to para 7.1 of AS 12 'Accounting for Government Grants', Government grants may take the form of non-monetary assets such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary grants given free of cost are recorded at a nominal value.

(c) Journal entries*

			Rs.	Rs.
(a)	Fixed asset A/c	Dr.	50,00,000	
	To Revaluation reserve A/c			50,00,000
	(Being the increase in value of fixed asset due to upward revaluation)			
<hr style="width: 50%; margin-left: 0;"/>				
(b)	Profit and loss A/c	Dr.	30,00,000	
	To Fixed asset A/c			30,00,000
	(Being the decrease in net book value of fixed asset due to downward revaluation)			
<hr style="width: 50%; margin-left: 0;"/>				

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

- (d) According to para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', prior period items refers to those income or expenses, which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period e.g., arrears payable to workers in current period as a result of revision of wages with retrospective effect.
 - (e) Items that are to be excluded in determination of the cost of inventories as per para 13 of AS 2 on 'Valuation of Inventories' are:
 - (i) Abnormal amounts of wasted materials, labour or other production costs.
 - (ii) Storage costs unless those costs are necessary in the production process prior to a further production stage.
 - (iii) Administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
 - (iv) Selling and distribution costs.
23. (a) Following are the criteria for classifying an enterprise as Level -I enterprise:
- (i) Enterprises, whose equity or debt securities are listed or is in the process of being listed in India.
 - (ii) Banks (including co-operative banks), Insurance companies and Financial Institutions.
 - (iii) All commercial, industrial and other business reporting enterprises whose turnover during the previous year is in excess of Rs.50 crores. Here turnover does not include 'other income'.
 - (iv) All commercial, industrial and other business reporting enterprises whose total borrowings including public deposits during the accounting year exceeds Rs.10 crores.
 - (v) Holding and subsidiary companies of any of the above enterprises at any time during the accounting year.
- (b) As per AS 16, the Financial Statements should disclose the following:
- (a) The accounting policy adopted for borrowing costs and
 - (b) The amount of borrowing costs capitalized during the period.
- (c) For the purpose of accounting we classify the lease into categories as follows:
- (i) Finance Lease
 - (ii) Operating Lease

Finance Lease: It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership. In following situations, the lease transactions are called Finance lease.

- The lessee will get the ownership of leased asset at the end of the lease term.
- The lessee has an option to buy the leased asset at the end of the lease term at price, which is lower than its expected fair value at the date on which option will be exercised.
- The lease term covers the major part of the life of asset
- At the beginning of lease term, present value of minimum lease rental covers the initial fair value.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

Operating Lease: It is lease, which does not transfer all the risks and rewards incidental to ownership.

- (d) Paragraphs 27 to 29 of AS 17 on Segment Reporting deal with reportable segments. Paragraph 27 requires that a business segment or geographical segment should be identified as a reportable segment if:
- (i) Its revenue from sales to external customers and from transactions with other segments is 10 percent or more of the total revenue, external and internal, of all segments; or
 - (ii) Its segment result, whether profit or loss, is 10 percent or more of –
 - (a) the combined result of all segments in profit, or
 - (b) the combined result of all segments is loss, whichever is greater in absolute amount; or
 - (iii) its segment assets are 10 percent or more of the total assets of all segments.

A business segment or a geographical segment which is not a reportable segment as per paragraph 27 may be designated as a reportable segment despite its size at the discretion of the management of the enterprise. If that segment is not designated as a reportable segment, it should be included as an unallocated reconciling item.

If total external revenue attributable to reportable segments constitutes less than 75 percent of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10 percent thresholds specified in paragraph 27 of the standard, until at least 75 percent of the total enterprise revenue is included in reportable segments.

- (e) The following have been generally accepted as fundamental accounting assumptions as per AS 1:
1. Going Concern - The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
 2. Consistency - It is assumed that accounting policies are consistent from one period to another.
 3. Accrual - Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate. (The considerations affecting the process of matching costs with revenues under the accrual assumption are not dealt with in this Statement.)
24. (a) As per para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', omission of two pages containing details of inventory worth Rs.20 lakhs in 31.3.2007 is a prior period item.
- As per para 19 of the standard, prior period items are normally included in the determination of net profit or loss for the current period. Accordingly, Rs.20 lakhs must be added to opening stock of 1.4.2007. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.
- (b) As per para 23 of AS 18 'Related Party Disclosures', transactions of X Ltd., with its associate company for the first quarter ending 30.6.2009 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not to be disclosed as related party transaction.
- (c) As per AS 11 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2007 and corresponding creditor would be recorded at Rs.4,50,000 (i.e. \$10,000 × Rs. 45)
- According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditor of US \$10,000 on 31.3.2007 will be reported at Rs.4,40,000 (i.e. \$10,000 × Rs.44) and exchange profit of Rs.10,000 (i.e. 4,50,000 – 4,40,000) should be credited to Profit and Loss account in the year 2006-07.
- On 7.7.2007, creditor of \$10,000 is paid at the rate of Rs.43. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs.10,000 (i.e. 4,40,000 – 4,30,000) will be credited to Profit and Loss account in the year 2007-08.

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

Journal Entry

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

(e)	Statement showing calculation of EPS		Rs. in crores
	Profit after depreciation but before VRS Payment		75.00
	Less: Depreciation – No. adjustment required	-	
	VRS payments	32.10	
	Provision for taxation	10.00	
	Fringe benefit tax	<u>5.00</u>	<u>47.10</u>
	Net Profit		<u>27.90</u>
	No. of shares		9.30 crores
	EPS = $\frac{\text{Net profit}}{\text{No. of shares}} = \frac{27.90}{9.30}$		
	= Rs.3 per share.		

(f) Statement showing the calculation of fixed assets at the end of the second year:

		Rs.
Original cost of the fixed assets		50,00,000
Less: State Government grant received		<u>(10,00,000)</u>
		40,00,000

Less: Amount to be written off in the first year	
<u>40,00,000 – 5,00,000</u>	<u>(7,00,000)</u>
5 years	
	33,00,000
Add: Refund of State Government grant	<u>10,00,000</u>
Value of fixed assets, at the end of the second year, after refund of grant but before depreciation	<u>43,00,000</u>

25. (a) As per paragraph 13 of AS 4 (revised) 'Contingencies and Events occurring after the Balance Sheet Date', an event occurring after the balance sheet date may require adjustment to the reported values of assets, liabilities, expenses or incomes. If a fraud of the accounting period is detected after the balance sheet date but before approval of the financial statements, it is necessary to recognize the loss amounting Rs. 5,00,000 and adjust the accounts of the company for the year ended 31st March, 2007.

- (b) As per paragraph 20 of AS 6 'Depreciation Accounting', the depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset. In the given case, the depreciation amount can be calculated as follows:

	Rs.
Cost of machinery	10,00,000
Less: Scrap value at the end of useful life	<u>1,00,000</u>
Amount to be written off during useful life of machinery	<u>9,00,000</u>
Useful life of the asset	5 years
Depreciation to be provided each year (Rs.9,00,000 / 5 years)	Rs.1,80,000

- (c) According to Para 21 of AS 3 (Revised) 'Cash Flow Statements', an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis. Acquisition and disposal of fixed assets is not prescribed in para 22 and 24 of the standard.

Hence, the company cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furnitures and fixtures.

- (d) As per paragraph 22 of AS 10 'Accounting for Fixed Assets' , fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at its fair market value, or the fair market value of the securities issued, whichever is more clearly evident. Since, the market value of the shares exchanged for the asset is more clearly evident, the company should record the value of machinery at Rs.7,50,000. (i.e., 50,000 shares × Rs.15 per share being the market price)
- (e) As per paragraphs 31 and 35 of AS 7 on Construction Contracts, an expected loss on the construction contract should be recognized as an expense immediately irrespective of (i) whether or not the work has commenced on the contract; or (ii) the stage of completion of the contract; or (iii) the amount of profits expected to arise in other contracts.

Hence, the company must recognize the loss immediately.

(f)

	Rs.
Purchase price (12,000 kg × Rs.80)	9,60,000
Less: CENVAT credit (12,000 kg. × Rs.4)	<u>48,000</u>
	9,12,000
Add: Freight	<u>77,400</u>
Total material cost	<u>9,89,400</u>
Number of units after normal loss = 97% of 12,000 kg.	11,640
Normal cost per kg. $\left(\frac{9,89,400}{11,640} \right)$	Rs.85
Value of closing stock under AS 2= (11,600 – 10,100 kg.) × Rs.85 = Rs.1,27,500	
Abnormal loss = (11,640 kg. – 11,600 kg.) × Rs.85 = Rs.3,400	