

PAPER – 1 : ADVANCED ACCOUNTING
QUESTIONS

Cash Flow Statements

1. 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>

Profit (Loss) prior to Incorporation

2. 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	20,000
	<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.

Redemption of Debentures

3. 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.

Accounts from Incomplete Records

4. Shri Rashid furnishes you with the following information relating to his business :

(a) Assets and liabilities as on	1.1.2008	31.12.2008
	Rs.	Rs.
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry Debtors	16,000	?
Sundry Creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

- (b) Receipts and payments during the year 2008 :

Collections from debtors, after allowing discount of Rs. 1,500 amounted to Rs. 58,500.

Collections on discounting of bills of exchange, after deduction of discount of Rs. 125 by the bank, totalled to Rs. 6,125.

Creditors of Rs. 40,000 were paid Rs. 39,200 in full settlement of their dues.

Payment for freight inwards Rs. 3,000.

Amounts withdrawn for personal use Rs. 7,000.

Payment for office furniture Rs. 1,000.

Investment carrying annual interest of 4% were purchased at Rs. 96 on 1st July, 2008 and payment made therefor.

Expenses including salaries paid Rs. 14,500.

Miscellaneous receipts Rs. 500.

- (c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 10,000. Of these, bills of exchange of Rs. 2,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 400 was dishonoured.
- (d) Goods costing Rs. 900 were used as advertising materials.
- (e) Goods are invariably sold to show a gross profit of 33.33% on sales.
- (f) Difference in cash book, if any, is to be treated as further drawing or introduction by Shri Rashid.
- (g) Provide at 2.5% for doubtful debts on closing debtors.

Rashid asks you to prepare trading and profit and loss a/c for the year ended 31st December, 2008 and the balance sheet as on that date.

Amalgamation

5. 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.	Weak Ltd.	Assets	Strong Ltd.	Weak Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity Share 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:

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

Financial Statement 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.

Underwriting of Shares

7. Alpha Chemicals Limited planned to set up a unit for manufacture of bulk drugs. For the purpose of financing the unit the Board of Directors have issued 15,00,000 equity shares of Rs.10 each. 30% of the issue was reserved for promoters and the balance was offered to the public. Aditya, Diwan and Annoop have come forward to underwrite the public issue in the ratio of 3:1:1 and also agreed for firm undertaking of 30,000; 20,000 and 10,000 shares, respectively. The underwriting commission was fixed at 4%. The amount payable on application was Rs.2.50 per share. The details of subscriptions are:

Marked forms of Aditya	5,50,000 Shares
Marked forms of Diwan	2,00,000 Shares
Marked forms of Annoop	1,50,000 Shares
Unmarked forms	50,000 Shares

- (a) You are required to show the allocation of liability among underwriters with workings.
- (b) Pass journal entries in the books of Alpha Chemicals Limited:
- For underwriters' net liability and the receipt or payment of cash to or from underwriters.
 - Determining the liability towards the payment of commission to the underwriters

Self-Balancing Ledgers

8. (a) From the following information, prepare Sales Ledger Adjustment A/c in the General Ledger:

	Rs.
On 1.4.2008: Balance in sales ledger (Dr.)	1,41,880
(Cr.)	2,240
On 31.3.2009:	
Total sales	7,68,000
Cash sales	40,000
Sales return	10,000
Cash received from customers	6,24,000
Discount allowed	11,200

Cash paid to supplier	4,80,000
Transfer from sales to bought ledger	20,800
Discount received	7,200
B/R received	40,000
Reserve for doubtful debts	9,160
Cash paid to customer	1,840
Bills received dishonoured	6,000
Sales ledger balance (Dr.)	1,83,200
Sales ledger balance (Cr.)	13,720

Average Due Date

(b) Calculate average due date from the following informations:

Date of bill	Term	Amount (Rs.)
1 st March, 2002	2 months	4,000
10 th March, 2002	3 months	3,000
5 th April, 2002	2 months	2,000
20 th April, 2002	1 months	3,750
10 th May, 2002	2 months	5,000

Accounting for Not-for-Profit Organisations

9. Mahaveer Sports club gives the following receipts and payments account for the year ended March 31,2009:

Receipts and Payment Account

Dr.		Cr.	
Receipts	Rs.	Payments	
		Rs.	
To Opening cash and bank balances	5,200	By Salaries	15,000
To Subscription	34,800	By Rent and taxes	5,400
To Donations	10,000	By Electricity charges	600
To Interest on investments	1,200	By Sports goods	2,000
To Sundry receipts	300	By Library books	10,000
		By Newspapers and periodicals	1,080
		By Miscellaneous expenses	5,400

_____	By Closing cash and bank balances	<u>12,020</u>
<u>51,500</u>		<u>51,500</u>

Liabilities	As on 31.3.2008	As on 31.3.2009
	Rs.	Rs.
Outstanding expenses:		
Salaries	1,000	2,000
Newspapers and periodicals	400	500
Rent and taxes	600	600
Electricity charges	800	1,000
Library books	10,000	-
Sports goods	8,000	-
Furniture and fixtures	10,000	-
Subscription receivable	5,000	12,000
Investment-government securities	50,000	-
Accrued interest	600	600
Provide depreciation on:		
Furniture and fixtures @ 10% p.a.		
Sports goods @ 20% p.a.		
Library books @ 10% p.a.		

You are required to prepare Club's opening balance sheet as on 1.4.2008, income and expenditure account for the year ended on 31.3.2009 and balance sheet as on that date.

Internal Reconstruction

10. The following is the Balance Sheet as at 31st December, 2008 of Ginni Ltd.

Liabilities	Rs.	Assets	Rs.
Subscribed capital:			
		Fixed Assets (including goodwill of Rs.1,00,000)	10,80,000
3,000 Cumulative Preference shares of Rs.100 each fully paid up	3,00,000	Investments	20,000
7,500 Equity share of	7,50,000	Stock in Trade	2,00,000

Rs.100 each fully paid up			
Securities Premium	12,000	Trade Debtors	1,54,500
-Preference Shares		Bank balances	62,500
General Reserve	80,000		
Trade Creditors	<u>3,75,000</u>		
	<u>15,17,000</u>		<u>15,17,000</u>

Contingent liability:

Preference Dividends in arrears Rs.66,000.

The Board of Directors of the Company decided upon the following scheme of reconstructions:

- (i) The preference shares are to be converted into 13% unsecured debentures of Rs.100 each in regard to 80% of the dues (including arrears of dividends) and for the balance equity shares of Rs.50 paid up would be issued. The authorized capital of the company permitted the issue of additional shares.
- (ii) Equity shares would be reduced to share of Rs.50 each paid up.
- (iii) All equity holders agree to pay the balance in cash.
- (iv) Goodwill has lost its value and is to be written off fully. Investment are to reflect their market value of Rs.30,000. Obsolete items in stock of Rs.50,000 are to be written off. Bad debts to the extent of 5% of the total debtors would be provided for. Fixed assets to be written down by Rs.1,50,000.

The scheme was duly approved and put into effect.

The company carried on trading for six months and after writing off depreciation at 20% p.a. on the revised value of fixed assets, made a net profit of Rs.80,000. The half-yearly working resulted in an increase of Sunday Debtors by Rs.60,000. Stock by Rs.80,000 and cash by Rs.40,000.

Show the journal entries (without narration) necessary in the Company's books to give effect to the scheme and draw the Balance sheet as at 30th June, 2009.

Investment Accounts

11. 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.

Branch Accounts

12. The Washington branch of XYZ Limited, Mumbai sent the following trial balance as on 31st December, 2007:

	\$	\$
Head office A/c	–	22,800
Sales	–	84,000
Debtors and creditors	4,800	3,400
Machinery	24,000	–
Cash at bank	1,200	–
Stock, 1 January, 2007	11,200	–
Goods from H.O.	64,000	–
Expenses	<u>5,000</u>	<u> </u>
	<u>1,10,200</u>	<u>1,10,200</u>

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

		Rs.			Rs.
To	Balance b/d	8,10,000	By	Cash	28,76,000
To	Goods sent to branch	<u>29,26,000</u>	By	Balance c/d	<u>8,60,000</u>
		<u>37,36,000</u>			<u>37,36,000</u>

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2002, when \$ 1.00 = Rs.40.

Rates of exchange were:

1 st January, 2007	\$ 1.00	=	Rs.46
31 st December, 2007	\$ 1.00	=	Rs.48
Average	\$ 1.00	=	Rs.47

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to:

- Prepare the Branch Trading & Profit & Loss A/c in dollars.
- Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office.

Hire-Purchase Accounting

- 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.
 - 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

Insurance Claim

- On account of a fire on 15th June, 2008 in the business house of a company, the working remained disturbed upto 15th December 2008 as a result of which it was not possible to

affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for Rs. 1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increased of 25% was marked in the current year's sales as compared to the last year. The company incurred an additional expenditure of Rs. 12,000 to make sales possible and made a saving of Rs. 2,000 in the insured standing charges.

	Rs.
Actual sales from 15 th June, 2008 to 15 th Dec, 2008	70,000
Sales from 15 th June 2007 to 15 th Dec 2007	2,40,000
Net profit for last financial year	80,000
Insured standing charges for the last financial year	70,000
Total standing charges for the last financial year	1,20,000
Turnover for the last financial year	6,00,000
Turnover for one year : 16 June 2007 to 15 June 2008	5,60,000

Partnership Accounts – Sale to a Company

15. A, B and C carried on business in partnership, sharing Profits and Losses in the ratio of 1:2:3. They decided to form a private limited company, AB (P) Ltd. and C is not interested to take over the shares in AB (P) Ltd. The authorized share capital of the company is Rs.12,00,000 divided into 12,000 ordinary shares of Rs.100 each.

The company was incorporated and took over goodwill as valued and certain assets of the partnership firm on 31.3.2009. The Balance Sheet of the partnership firm on that date was as follows:

Liabilities	Rs.	Assets	Rs.
<u>Capital Accounts:</u>		<u>Fixed Assets:</u>	
A	1,00,000	Machinery	1,20,000
B	2,00,000	Land	1,74,000
C	3,00,000	Motorcycles	30,000
<u>Current Accounts:</u>		Furniture & fittings	11,000
A	39,420	<u>Current Assets:</u>	
B	60,580	Stock	2,35,000
A's Loan A/c	28,000	Debtors	43,000
(+) Interest accrued	<u>2,000</u>	Cash in hand	87,000
Current Liability:		C's overdrawn	1,00,000
Creditors	70,000		
	<u>8,00,000</u>		<u>8,00,000</u>

C, who retired was presented by the other partners (A and B) with one motorcycle valued in the books of the firm Rs.9,000. The remaining motorcycles were sold in the open market for Rs.13,000. C also received certain furniture for which he was charged Rs.2,000. The debtors which were all considered good, were taken over by C for Rs.40,000. A and B were charged in their profit sharing ratio for the book value of Motorcycle presented by them to C.

It was agreed that C who is not willing to take the shares in AB (P) Ltd. was discharged first by providing necessary cash. A and B should bring cash, if necessary.

AB (P) Ltd. took over the remaining furniture and fittings at a price of Rs.13,000, the machinery for Rs.1,25,000, the stock at an agreed value of Rs.2,00,000 and the land at its book value. The value of the goodwill of the partnership firm was agreed at Rs.88,000. The creditors of the firm were settled by the firm for Rs.70,000. A's loan account together with interest accrued was transferred to his capital account.

The purchase consideration was discharged by the company by the issue of equal number of fully paid up equity shares at par to A and B.

Prepare Realisation A/c, Capital A/cs of the partners and Cash A/c. Also draw the Balance Sheet of AB (P) Ltd.

Financial Statement of Banking Companies

16. Following information is furnished to you by Sound Bank Ltd. for the year ended 31st March, 2009:

	(Rs. in thousands)
Interest and discount - (Income)	8,860
Interest on public deposits - (Expenditure)	2,720
Operating expenses	2,662
Other incomes	250
Provisions and contingencies (it includes provision in respect of Non-performing Assets (NPAs) and tax provisions)	2,004
Rebate on bills discounted to be provided for as on 31.3.2009	30
Classification of Advances:	
Standard Assets	5,000
Sub-standard Assets	1,120
Doubtful Assets – fully unsecured	200
Doubtful assets – fully secured	
Less than 1 year	50
More than 1 year but less than 3 years	300
More than 3 years	300
Loss assets	200

You are required to prepare:

- (i) Profit and Loss Account of the Bank for the year ended 31st March, 2009.
- (ii) Provision in respect of advances.

Financial Statement of Insurance Companies

17. Prepare the Fire Insurance Revenue A/c as per IRDA regulations for the year ended 31st March, 2009 from the following details:

	Rs.
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, 2008	5,50,000
Claims unpaid on 1 st April, 2008	50,000
Claims unpaid on 31 st March, 2009	80,000

Short Answer Based Questions

18. Answer the following questions (Give adequate working notes in support of your answer)
- (i) In X Co. Ltd., theft of cash of Rs.5 lakhs by the cashier in January, 2009 was detected only in May, 2009. 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 31.3.2009. Decide.
 - (ii) 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?
 - (iii) X, Y and Z are partners. X became insolvent on 15.4.2009. The Capital account balance of partner Y is on the debit side. Partner Y is solvent. Should partner Y bear the loss arising on account of the insolvency of partner X?
 - (iv) The closing capital of Mr. A on 31.3.2009 was Rs. 1,50,000. On 1.4.2008 his capital was Rs. 60,000. During the year he had drawn Rs. 40,000 for domestic expenses. He introduced Rs. 25,000 as additional capital in February, 2009. Find out his net profit for the year.
 - (v) Alphs & Co., having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.2009, it was found that the goods dispatched by head office for Rs.2,00,000

was received by the branch only to the extent of Rs.1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

- (vi) 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?
- (vii) 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?
- (viii) 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?
- (ix) 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

- (x) A company lodged a claim to insurance company for Rs. 5,00,000 in September, 2006. The claim was settled in February, 2007 for Rs. 3,50,000. How will you record the short fall in claim settlement in the books of the company.
- (xi) What do you understand by the term 'Firm Underwriting'?

Liquidation of Companies

- 19. The following particulars relate to a Limited Company which has gone into voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2½% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Share capital issued:

10,000 Preference shares of Rs.100 each fully paid up.

50,000 Equity shares of Rs.10 each fully paid up.

30,000 Equity shares of Rs.10 each, Rs.8 paid up.

Assets realized Rs.20,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

	Rs.
Preferential creditors	50,000
Unsecured creditors	18,00,000
Partly secured creditors (Assets realized Rs.3,20,000)	3,50,000
Debentureholders having floating charge on all assets of the company	6,00,000
Expenses of liquidation	10,000

A call of Rs.2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1,000 shares.

Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

Buy-Back of Shares

20. Versa Ltd. furnishes you with the following balance sheet as at 31st March, 2009:

(Rs. in crores)

Sources of Funds

Share Capital:

Authorised 100

Issued:

12% redeemable preference shares of Rs.100 each fully paid 75

Equity shares of Rs.10 each fully paid 25 100

Reserves and surplus:

Capital reserve 15

Securities Premium 25

Revenue reserves 260 300

400

Application of Funds

Fixed assets: cost 100

Less: Provision for depreciation	<u>(100)</u>	nil
Investments at cost (Market value Rs.400 Cr.)		100
Current assets	340	
Less: Current liabilities	<u>40</u>	<u>300</u>
		<u>400</u>

The company redeemed preference shares on 1st April, 2008. It also bought back 50 lakh equity shares of Rs.10 each at Rs.50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

- (i) Pass journal entries to record the above.
- (ii) Prepare balance sheet as at 1.4.2009.
- (iii) Calculate the value of a equity share on net assets basis.

Employee Stock Option Plans

21. Bharat Ltd. grants 1,000 employees stock options on 1.4.2006 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 1.5.2008. 600 options are exercised on 30.6.2009. 100 vested options lapse at the end of the exercise period.

Pass Journal Entries giving suitable narrations.

Departmental Accounting

22. Write short note on basis of allocation of common expenditure among different departments.

Theory Questions based on Accounting Standards text of the syllabus

23. Theory questions:
- (a) When can an item qualify to be a prior period item as per AS 5?
 - (b) Explain Garner v/s Murray rule applicable in the case of partnership firms. State, when is this rule not applicable.
 - (c) Explain the factors to be considered before selecting the pre-packaged accounting software.
 - (d) What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein?
 - (e) Explain the accounting treatment of donation received for specific purpose in the case of charitable society.
 - (f) When can a company change its accounting policy?
 - (g) Mention six areas in which different accounting policies are followed by companies.

- (h) What are the advantages of outsourcing the accounting functions?
- (i) What are the advantages of self-balancing ledger system?
- (j) List the criteria to be applied for rating an enterprise as Level-I enterprise for the purpose of compliance of Accounting Standards in India.

Practical Problems based on Accounting Standards

24. (a) A major fire has damaged the assets in a factory of a Limited Company on 5th April – five days after the year end and closure of accounts. The loss is estimated at Rs.10 crores out of which Rs.7 crores will be recoverable from the insurers. Explain briefly how the loss should be treated in the final accounts for the previous year.

(b) Goods purchased on 24.2.2008 of US \$ 1,000	Rs.46.60 per US \$
Exchange rate on 31.3.2008	Rs.47.00 per US \$
Date of actual payment 05.06.2008	Rs.47.50 per US \$

Calculate the loss/gain for the financial year 2007-08 and 2008-09 as per AS 11.

(c) Rishi Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of Rs. 50 crore in capital assets, received Rs. 10 crore from the Government in January, 2009 (accounting period being 2008-2009). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2009.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not.

(d) A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2009.

	(Rs. in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by your institute.

- (e) X Co. Ltd., has obtained an Institutional Loan of Rs. 680 lakhs for modernisation and renovation of its plant & machinery, Plant & machinery acquired under the modernisation scheme and installation completed on 31.3.2008 amounted to Rs. 520 lakhs, 30 lakhs has been advanced to suppliers for additional assets and the balance loan of Rs. 130 lakhs has been utilized for working capital purpose. The total interest paid for the above loan amounted to Rs. 62 lakhs during 2007-2008.

You are required to state how the interest on the institutional loan is to be accounted for in the year 2007-2008.

25. (a) A Limited Company finds that the stock sheets as on 31.3.08 had included twice an item the cost of which was Rs. 20,000.

You are asked to suggest, how the error would be dealt with in the accounts of the year ended 31.3.09

- (b) Mini Ltd. took a factory premises on lease on 1.4.07 for Rs.2,00,000 per month. The lease is operating lease. During March, 2008, Mini Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2010. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2010 should be provided in the accounts for the year ending 31.3.2008. Mini Ltd. seeks your advice.
- (c) A Omega limited company manufacturing fancy bedsheets had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

Comment on the valuation of the stocks by the company.

- (d) A company with a turnover of Rs.250 crores and an annual advertising budget of Rs.2 crore had taken up the marketing of a new product. It was estimated that the company would have a turnover of Rs. 25 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of Rs.2 crore incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the company correct?

- (e) Goverdhan Ltd. has equity capital of Rs.40,00,000 consisting of fully paid equity shares of Rs.10 each. The net profit for the year 2008-09 was Rs.60,00,000. It has also issued 36,000, 10% convertible debentures of Rs.50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. Compute the diluted earnings.

SUGGESTED ANSWERS / HINTS

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

Cash Flows from Operating Activities		
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 (10,00,000 + 1,10,000 – 8,50,000)	(2,60,000)	
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>

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

	Rs.					Rs.	
Dr.					Dr.		
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					
		5,12,000				5,12,000	
	Pre-Incorporation	Post-Incorporation		Pre-Incorporation	Post-Incorporation		
	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 Reserve Account	26,000	-					
To Net Profit	-	69,000					
	40,500	1,24,500		40,500	1,24,500		

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
Reserve & Surplus:			Current Assets, Loans & Advances:		
Capital Reserve	26,000		(A) Current Assets:		
Less: Goodwill w/o	<u>16,000</u>	10,000	Stock	52,000	
Profit & Loss A/c		69,000	Debtors	1,31,000	
Secured Loans		Nil	Cash	<u>91,000</u>	2,74,000
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>	1,20,000
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		<u>4,000</u>
		<u>1,62,000</u>

(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 ¹	By	Cash	60,000	3,24,000 ²
				By	Balance c/d	29,000	1,31,000 ³
		90,000	4,60,000			90,000	4,60,000

(5) Cash payment for purchases

Dr.	Total Creditors Account				Cr.
		Rs.			Rs.
To	Cash (Balancing figure)	2,72,000	By	Purchases	3,20,000 ⁴
To	Balance c/d	48,000			
		3,20,000			3,20,000

(6) Summary Cash Book

Dr.	Summary Cash Book				Cr.
		Rs.			Rs.
To	Share Capital A/c	1,62,000	By	Total Creditors A/c	
To	Total Debtors A/c:		By	Payment to creditors	2,72,000
	Collection from company's debtors	3,24,000	By	Vendor's A/c:	
	Collection from vendor's debtors	60,000	By	Purchase consideration	56,000
			By	Preliminary Expenses	10,000
			By	Directors' Fees	12,000

¹ Assumed that all sales were on credit.

² Balancing figure.

³ Total Debtors Rs.1,60,000 minus Vendor's Debtors Rs.29,000.

⁴ Assumed that all purchases were on credit.

By	Salaries	48,000
By	Vendor's A/c (Collection less commission Rs.3,000)	57,000
By	Balance c/d	91,000
	<u>5,46,000</u>	<u>5,46,000</u>

3. Journal Entries

Date	Particulars	Dr. Rs.	Cr. 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)		
	<u>Debenture-holders A/c</u>	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)		
1.10.2009	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)		
	<u>Debentureholders A/c</u>	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	4,16,000
Number of preference shares to be issued $\left(\frac{\text{Rs.4,16,000}}{130}\right)$	<u>3,200</u>

	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	4,99,200
Number of 11% Second Debentures to be issued $\left(\frac{\text{Rs.4,99,200}}{\text{Rs.96}}\right)$	<u>5,200</u>

	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	1,24,800
(10,000 – 4,000 – 4,800 = 1,200)	<u>1,24,800</u>

4. Trading and Profit and Loss Account of Shri Rashid
for the year ended 31st December, 2008

	Rs.		Rs.
To Opening Stock	8,000	By Sales	73,050
To Purchases	45,600	By Closing stock	7,000
Less : For advertising	<u>900</u>		
To Freight inwards	3,000		
To Gross profit c/d	<u>24,350</u>		
	<u>80,050</u>		<u>80,050</u>

To Sundry expenses	14,200	By Gross profit b/d	24,350
To Advertisement	900	By Interest on investment	2
To Discount allowed –		$\left(\text{Rs. } 100 \times \frac{4}{100} \times \frac{1}{2} \right)$	
Debtors	1,500	By Discount received	800
Bills Receivable	<u>125</u>	By Miscellaneous income	500
To Depreciation on furniture	650		
To Provision for doubtful debts	486		
To Net Profit	<u>7,791</u>		<u> </u>
	<u>25,652</u>		<u>25,652</u>

Balance Sheet as on 31st December, 2008

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Capital as on 1st January, 2008	18,800	Furniture (w.d.v.)	6,000
Less : Drawings	<u>7,904</u>	Additions during the year	<u>1,000</u>
	10,896		7,000
Add : Net Profit	<u>7,791</u>	Less : Depreciation	<u>650</u>
Sundry creditors	15,000	Investment	96
		Interest accrued	2
Outstanding expenses	1,800	Closing Stock	7,000
		Sundry debtors	19,450
		Less : Provision for doubtful debts	<u>486</u>
			18,964
		Bills receivable	1,750
		Cash in hand and at bank	625
		Prepaid expenses	<u>700</u>
	<u>35,487</u>		<u>35,487</u>

Working Notes :

(1) Capital on 1st January, 2008

Balance Sheet as on 1st January, 2008

Liabilities	Rs.	Assets	Rs.
Capital (Balancing figure)	18,800	Furniture (w.d.v.)	6,000
Creditors	11,000	Stock at cost	8,000
Outstanding expenses	2,000	Sundry debtors	16,000
		Cash in hand and at bank	1,200
		Prepaid expenses	<u>600</u>
	<u>31,800</u>		<u>31,800</u>

(2) Purchases made during the year

Sundry Creditors Account

	Rs.		Rs.
To Cash and bank A/c	39,200	By Balance b/d	11,000
To Discount received A/c	800	By Sundry debtors A/c	400
To Bills Receivable A/c	2,000	By Purchases A/c	45,600
To Balance c/d	15,000	(Balancing figure)	
	<u>57,000</u>		<u>57,000</u>

(3) Sales made during the year

Opening stock		Rs.	8,000
Purchases	45,600		
Less : For advertising	<u>900</u>		44,700
Freight inwards			<u>3,000</u>
			55,700
Less : Closing stock			<u>7,000</u>
Cost of goods sold			48,700
Add : Gross profit (@ 50% on cost)			<u>24,350</u>
			<u>73,050</u>

(4) Debtors on 31.12.2008

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	16,000	By Cash and bank A/c	58,500
To Sales A/c	73,050	By Discount allowed A/c	1,500
To Sundry creditors A/c		By Bills receivable A/c	10,000
(bill dishonoured)	<u>400</u>	By Balance c/d (Balancing figure)	19,450
	89,450		<u>89,450</u>

(5) Additional drawings by Mr. Rashid

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	1,200	By Freight inwards A/c	3,000
To Sundry debtors A/c	58,500	By Furniture A/c	1,000
To Bills Receivable A/c	6,125	By Investment A/c	96
To Miscellaneous income A/c	500	By Expenses A/c	14,500
		By Creditors A/c	39,200
		By Drawings A/c	7,904
		[Rs. 7,000 + Rs. 904	
		(Additional drawings)]	
	<u>66,325</u>	By Balance c/d	<u>625</u>
			<u>66,325</u>

(6) Amount of expenses debited to Profit and Loss A/c

Expenses Account

	Rs.		Rs.
To Prepaid expenses A/c	600	By Outstanding expenses A/c	2,000
(on 1.1.2008)		(on 1.1.2008)	
To Bank A/c	14,500	By Profit and Loss A/c	
To Outstanding expenses A/c	1,800	(Balancing figure)	14,200
(on 31.12.2008)		By Prepaid expenses A/c	700
		(on 31.12.2008)	
	<u>16,900</u>		<u>16,900</u>

(7) Bills Receivable on 31.12.2008

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	10,000	By Creditors A/c	2,000
		By Bank A/c	6,125
		By Discount on bills receivable A/c	125
		By Balance c/d (Balancing figure)	1,750
	<u>10,000</u>		<u>10,000</u>

Note: As regards investment, it has been assumed that investment purchased for Rs. 96 was of the face value Rs. 100.

5. (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	5,00,000	(8,00,000 + 6,00,000)	
		Debtors	23,00,000

[as computed in (iii)]

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>

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)		8,000	
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
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. (a) Statement of Allocation of Liability among Underwriters

	Aditya (No.of Shares)	Diwan (No.of Shares)	Anoop (No. of Shares)	Total (No. of Shares)
Gross liability	6,30,000	2,10,000	2,10,000	10,50,000
Less: Firm undertaking	<u>30,000</u>	<u>20,000</u>	<u>10,000</u>	<u>60,000</u>
	6,00,000	1,90,000	2,00,000	9,90,000
Less: Marked Applications	<u>5,50,000</u>	<u>2,00,000</u>	<u>1,50,000</u>	<u>9,00,000</u>
	50,000	(10,000)	50,000	90,000
Less: Unmarked Applications (in the ratio				

of 3:1:1)	<u>30,000</u>	<u>10,000</u>	<u>10,000</u>	<u>50,000</u>
	20,000	(20,000)	40,000	40,000
Surplus of Diwan distributed between Aditya and Anoop in the ratio of 3:1	<u>(15,000)</u>	<u>20,000</u>	<u>(5,000)</u>	<u>-</u>
Net liability	5,000	-	35,000	40,000
Add: Firm undertaking	<u>30,000</u>	<u>20,000</u>	<u>10,000</u>	<u>60,000</u>
Underwriters' liability	<u>35,000</u>	<u>20,000</u>	<u>45,000</u>	<u>1,00,000</u>

(b)

Alpha Chemicals Ltd.

Journal Entries

		Dr. (Rs.)	Cr. (Rs.)
Aditya	Dr.	12,500	
Anoop	Dr.	87,500	
To Equity share capital A/c			1,00,000
(Allotment of shares to underwriters: 5,000 shares to aditya and 35,000) shares to Anoop)			
<hr/> Underwriting Commission A/c	Dr.	4,20,000	
To Aditya			2,52,000
To Diwan			84,000
To Anoop			84,000
(Underwriting commission payable @4% on the amount of shares underwritten)			
<hr/> Aditya	Dr.	2,39,500	
Diwan	Dr.	84,000	
To Bank A/c			3,23,500
(Amount paid to Aditya and Diwan in final settlement)			
<hr/> Bank A/c	Dr.	3,500	
To Anoop			3,500
(Amount received from Anoop on shares allotted less underwriting commission)			

Working Notes:

(1) Calculation of amounts payable to/by underwriters:

	Aditya	Diwan	Anoop
Liability (No. of shares)	35,000	20,000	45,000
Less: Firm undertaking (No. of Shares)	<u>30,000</u>	<u>20,000</u>	<u>10,000</u>
Net Liability (No. of shares)	<u>5,000</u>	<u>-</u>	<u>35,000</u>
	Rs.	Rs.	Rs.
Amount payable on application @ Rs.2.50 per share	12,500	-	87,500
Underwriting commission receivable by underwriters @ 4%	<u>2,52,000</u>	<u>84,000</u>	<u>84,000</u>
Amount payable to underwriters	2,39,500	84,000	-
Amount receivable from underwriters	<u>-</u>	<u>-</u>	<u>3,500</u>

(2) No Journal entry is shown for firm undertaking by the underwriters on the assumption that the amounts have been already paid by the underwrites at the opening days of the issue. Alternatively, the students may pass entries for firm undertaking on the ground that the allotment of shares will be made by the company at a time.

8. (a) In General Ledger
Sales Ledger Adjustment Account

		Rs.			Rs.
Dr.					Cr.
01.04.2008	To Balance b/d	1,41,880	1.4.2008	By Balance b/d	2,240
31.3.2009	To General ledger adjustment A/c in sales ledger:		31.3.2009	By General ledger adjustment A/c in sales ledger:	
	Credit sales	7,28,000		Cash	6,24,000
	Cash paid	1,840		Discount allowed	11,200
	Bills receivable dishonoured	<u>6,000</u> 7,35,840		Transfers	20,800
	To Balance c/d	13,720		Bills receivable	

received	40,000	
Sales return	<u>10,000</u>	7,06,000
By Balance c/d		<u>1,83,200</u>
	<u>8,91,440</u>	<u>8,91,440</u>

(b) Calculation of Average Due Date
(Taking 4th May, 2009 as the base date)

Date of bill	Term	Due date	Amount Rs.	No. of days from the base date i.e. May 4, 2009	Product Rs.
2009		2009			
1 st March	2 months	4 th May	4,000	0	0
10 th March	3 months	13 th June	3,000	40	1,20,000
5 th April	2 months	8 th June	2,000	35	70,000
20 th April	1 month	23 rd May	3,750	19	71,250
10 th May	2 months	13 th July	<u>5,000</u>	70	<u>3,50,000</u>
			<u>17,750</u>		<u>6,11,250</u>

Average due date = Base date + Days equal to $\frac{\text{Sum of products}}{\text{Sum of amounts}}$

$$= 4^{\text{th}} \text{ May, 2009} + \frac{\text{Rs. } 6,11,250}{\text{Rs. } 17,750} \text{ i.e. 34 days (approx.)}$$

$$= 7^{\text{th}} \text{ June, 2009}$$

9. Balance Sheet of Mahaveer Sports Club
as on 1st April, 2008

Liabilities	Rs.	Rs.	Assets	Rs.
Capital fund (balancing figure)		86,000	Library books	10,000
Outstanding expenses:			Sports goods	8,000
Salaries	1,000		Furniture and fixtures	10,000
Newspapers and periodicals	400		Subscriptions receivable	5,000
Electricity charges	800		Investment-Government securities	50,000
Rent and taxes	<u>600</u>	2,800	Accrued interest	600
			Cash and bank balances	<u>5,200</u>
		<u>88,800</u>		<u>88,800</u>

Income and Expenditure Account
for the year ended on 31st March, 2009

Dr.		Income	Cr.
Expenditure	Rs.		Rs.
To Salaries	16,000	By Subscription (W.N.1)	41,800
To Electricity charges	800	By Interest on investments (W.N.2)	1,200
To Rent and taxes	5,400	By Sundry receipts	300
To Newspapers and periodicals	1,180		
To Misc expenses	5,400		
To Depreciation on fixed assets (W N 4)	5,000		
To Excess of income over expenditure (transferred to capital fund)	9,520		
	<u>43,300</u>		<u>43,300</u>

Balance Sheet of Mahaveer Sports Club
as on 31st March, 2009

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital fund			Fixed assets (W.N. 4)		
Opening balance	86,000		Furniture and fixtures	9,000	
Add: Surplus	9,520		Sports goods	8,000	
Add: Donations	<u>10,000</u>	1,05,520	Library books	<u>18,000</u>	35,000
Outstanding expenses: (W.N.3)			Investment-Govt. securities		50,000
Salaries	2,000		Accrued interest		600
Newspapers and periodicals	500		Subscriptions receivable		12,000
Electricity charges	1,000		Cash and bank balances		12,020
Rent and taxes	<u>600</u>	<u>4,100</u>			
		<u>1,09,620</u>			<u>1,09,620</u>

Working Notes:

(1) Subscriptions for the year ended 31st March, 2009:

	Rs.
Subscription received during the year	34,800
Add: Subscriptions receivable on 31.3.09	<u>12,000</u>
	46,800
Less: subscriptions receivable on 31.3.08	<u>5,000</u>
	<u>41,800</u>

(2) Interest on investments for the year ended 31st March, 2009:

	Rs.
Interest received during the year	1,200
Add: Accrued interest on 31.3.09	<u>600</u>
	1,800
Less: Accrued interest on 31.3.08	<u>600</u>
	<u>1,200</u>

(3) Expenses for the year ended 31st March, 2009:

Expenses	Salaries	Electricity charges	Rent and taxes	Newspapers and periodicals
	Rs.	Rs.	Rs.	Rs.
Paid during the year	15,000	600	5,400	1,080
Add: Outstanding (as on 31.3.98)	<u>2,000</u>	<u>1,000</u>	<u>600</u>	<u>500</u>
	17,000	1,600	6,000	1,580
Less: Outstanding (as on 31.3.97)	1,000	800	600	400
	<u>16,000</u>	<u>800</u>	<u>5,400</u>	<u>1,180</u>

(4) Depreciation on Fixed assets

Assets	Book value (31.3.08)	Additions during the year	Total	Rate of depreciation	Depreciation	W.D.V as on 31.3.98
Furniture and fixtures	10,000	-	10,000	10%	1,000	9,000
Sports goods	8,000	2,000	10,000	20%	2,000	8,000
Library books	10,000	10,000	20,000	10%	<u>2,000</u>	<u>18,000</u>
Total					<u>5,000</u>	<u>35,000</u>

Note: In the given solution, donations have been capitalized. Alternatively, donations may be credited to the income and expenditure account assuming that the donations have been raised for meeting some revenue expenditure.

10.

In the books of Ginni Ltd.

Journal Entries

		Debit Rs.	Credit Rs.
Cumulative Preference Share Capital A/c	Dr.	3,00,000	
Capital Reduction A/c	Dr.	66,000	
To Cumulative Preference Shareholders A/c			3,66,000
(Being the cumulative preference shares & arrear dividend transferred to cumulative preference shareholders account in accordance with the resolution of the Board dated.....)			
Cumulative Preference Shareholders A/c	Dr.	3,66,000	
To 13% unsecured debentures A/c			2,92,800
To Equity Share Capital A/c			73,200
(Being the issue of 13% unsecured debentures and 1,464 Equity shares of Rs.100 each issued as Rs.50 paid up as per the Board's resolution dated....)			

Equity Share Capital A/c	Dr.	3,75,000	
To Capital Reduction A/c			3,75,000
(Being the entry for reducing every share of Rs.100 each as Rs.50 paid up 7,500 Equity shares @ 50 per share as per the Board resolution dated....)			
<hr/>			
Cash A/c	Dr.	4,48,200	
To Equity Share Capital A/c			4,48,200
(Being the receipt of Cash of Rs.50 each for 8964 being the call made as per Boards resolution dated.....)			
<hr/>			
Investments A/c	Dr.	10,000	
Capital Reduction (Balancing figure)	Dr.	2,97,725	
To Goodwill A/c			1,00,000
To Stock A/c			50,000
To Fixed Assets A/c			1,50,000
To Provision for doubtful Debts A/c			7,725
(Being the change in value of assets as per the resolution of the Board dated.....)			
<hr/>			
Capital Reduction A/c	Dr.	11,275	
To Capital Reserve A/c			11,275
(Being the transfer of Capital Reduction A/c balance to Capital Reserve)			
<hr/>			

Ginni Ltd.

Balance Sheet as at 30th June, 2009

Liabilities	Rs.	Assets	Rs.	Rs.
Subscribed Capital		Fixed Assets	8,30,000	
8,964 Equity Shares of Rs.100 each	8,96,400	Less: depreciation	<u>83,000</u>	7,47,000
Securities premium	12,000	Investments		30,000
Capital Reserve	11,275	Stock in Trade		2,30,000
General Reserve	80,000	Trade Debtors	2,14,500	

Profit and Loss A/c	80,000	Less: Provision for Doubtful debts	<u>7,725</u>	2,06,775
13% unsecured debentures	2,92,800	Bank Balance		5,50,700
Trade Creditors	<u>3,92,000</u>			
	<u>17,64,475</u>			<u>17,64,475</u>

Working Notes:

	Rs.
1. No. of equity shares issued to cumulative preference shareholders	1,464
No. of shares held by Equity shareholders	<u>7,500</u>
Total number of shares	<u>8,964</u>
	Rs.
2. Opening Balance on 31.12.2008	62,500
Add: Calls on shares @ 50 per share (8,964 × Rs.50 per share)	<u>4,48,200</u>
Balance on implementation of the scheme	5,10,700
Add: Change in cash balance (as given in the question)	<u>(+)40,000</u>
	<u>5,50,700</u>
3. Creditors Closing Balance	
Alternative approach: Profit & Loss upto 30.6.2009	80,000
Add: Depreciation (non cash item)	<u>83,000</u>
Cash from operations	<u>(A)1,63,000</u>
Change in Current Assets:	
Debtors	(+) <u>60,000</u>
Stock	(+) <u>80,000</u>
Cash Balance	<u>(+)40,000</u>
Cash Outflow	<u>(B)1,80,000</u>
Increase in creditors	
Excess of (B) over (A)	17,000
Add: Opening Balance	<u>3,75,000</u>
	<u>3,92,000</u>

11.

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
	\therefore 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

12. (i) In the Books of Head Office
Branch Trading and Profit & Loss A/c (in Dollars)
for the year ended 31st December, 2007

Particulars	\$	Particulars	\$
To Opening stock	11,200	By Sales	84,000
To Goods from H.O.	64,000	By Closing stock (W.N.2)	8,000
To Gross profit c/d	<u>16,800</u>		<u> </u>
	<u>92,000</u>		<u>92,000</u>
To Expenses	5,000	By Gross profit b/d	16,800
To Depreciation	2,400		
To Manager's commission (W.N.1)	470		
To Net profit c/d	<u>8,930</u>		<u> </u>
	<u>16,800</u>		<u>16,800</u>

(ii) (a) Converted Branch Trial Balance (into Indian Currency)

Particulars	Rate per \$	Dr. (Rs.)	Cr. (Rs.)
Machinery	40	9,60,000	—
Stock January 1, 2007	46	5,15,200	—

Goods from head office	Actual	29,26,000	–
Sales	47	–	39,48,000
Expenses	47	2,35,000	–
Debtors & creditors	48	2,30,400	1,63,200
Cash at bank	48	57,600	–
Head office A/c	Actual	–	8,60,000
Difference in exchange rate		<u>47,000</u>	<u>–</u>
		<u>49,71,200</u>	<u>49,71,200</u>
Closing stock \$ 8,000 (W.N. 2)	48		Rs.3,84,000

(b) Branch Trading and Profit & Loss A/c
for the year ended 31st December, 2007

	Rs.		Rs.
To Opening stock	5,15,200	By Sales	39,48,000
To Goods from head office	29,26,000	By Closing stock (W.N.2)	3,84,000
To Gross profit c/d	<u>8,90,800</u>		<u>–</u>
	<u>43,32,000</u>		<u>43,32,000</u>
To Expenses	2,35,000	By Gross profit b/d	8,90,800
To Depreciation @ 10% on Rs.9,60,000	96,000		
To Exchange difference	47,000		
To Manager's commission (W.N.1)	22,560		
To Net Profit c/d	<u>4,90,240</u>		<u>–</u>
	<u>8,90,800</u>		<u>8,90,800</u>

(c) Branch Account

	Rs.		Rs.
To Balance b/d	8,60,000	By Machinery	9,60,000
To Net profit	4,90,240	Less: Depreciation	<u>96,000</u>
To Creditors	1,63,200	By Closing stock	3,84,000

To	Outstanding commission	22,560	By	Debtors	2,30,400
		<u> </u>	By	Cash at bank	<u>57,600</u>
		<u>15,36,000</u>			<u>15,36,000</u>

Working Notes:

1. Calculation of manager's commission @ 5% on profit

i.e. 5% of \$[16,800 - (5,000 + 2,400)]

Or 5% × \$9,400 = \$ 470

Manager's commission in Rupees = \$ 470 × Rs.48 = Rs. 22,560

2. Calculation of closing stock \$

Opening stock 11,200

Add: Goods from head office 64,000

75,200

Less: Cost of goods sold (at invoice price)

$\frac{100}{125} \times 84,000$ 67,200

i.e.

Closing stock 8,000

Closing stock in Rupees = \$8,000 x Rs.48 = Rs.3,84,000.

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

	Instalment Amount	Interest @ 5% half yearly (10% p.a.) = $\frac{5}{105} = \frac{1}{21}$	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>		(25,977-21,276)
	<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)	<u>1,64,000</u>	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 (Balancing figure)	1,64,000
To	Goods sold on H.P. A/c (given)	1,76,000	By	Balance c/d (given)	<u>92,000</u>
		<u>2,56,000</u>			<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 (at cost) ($\frac{3}{4} \times \text{Rs. } 1,76,000$)	1,32,000
To	Purchases	<u>1,36,000</u>	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.

14. (1) Calculation of short sales:

	Rs.
Sales for the period 15.6.2007 to 15.12.2007	2,40,000
Add: 25% increase in sales	<u>60,000</u>
Estimated sales in current year	3,00,000
Less: Actual sales from 15.6.2008 to 15.12.2008	<u>70,000</u>
Short sales	<u>2,30,000</u>

(2) Calculation of gross profit:

$$\begin{aligned} \text{Gross profit} &= \frac{\text{Net profit} + \text{Insured standing charges}}{\text{Turnover}} \times 100 \\ &= \frac{\text{Rs.80,000} + \text{Rs.70,000}}{\text{Rs.6,00,000}} \times 100 \\ &= \frac{\text{Rs.1,50,000}}{\text{Rs.6,00,000}} \times 100 = 25\% \end{aligned}$$

(3) Calculation of loss of profit:

$$\text{Rs. } 2,30,000 \times 25\% = \text{Rs. } 57,500$$

(4) Calculation of claim for increased cost of working :

Least of the following:-

(i) Actual expense =Rs. 12,000

(ii) Expenditure x (Net profit+ Insured standing charges)/(Net profit + Total standing charges)

$$= \text{Rs. } 12,000 \times \frac{\text{Rs.80,000} + \text{Rs.70,000}}{\text{Rs.80,000} + \text{Rs.1,20,000}} = \text{Rs. } 9,000$$

(iii) Gross profit on sales generated due to additional expenses

$$= \text{Rs. } 70,000 \times 25\% = \text{Rs. } 17,500$$

Rs. 9,000 being the least, shall be the increased cost of working.

(5) Calculation of total loss of profit:

	Rs.
Loss of profit	57,500
Add: Increased cost of working	<u>9,000</u>
	66,500
Less: Saving in standing charges	<u>2,000</u>
	<u>64,500</u>

(6) Calculation of insurable amount = Adjusted sales x G. P. rate:

	Rs.
Turnover from 16.6.2007 to 15.6.2008	5,60,000
Add: 25% increase	<u>1,40,000</u>
Adjusted sales	<u>7,00,000</u>
Insurable amount= Rs. 7,00,000 x 25% =	Rs. 1,75,000

(7) Total claim for consequential loss of profit:

$$\text{Total claim} = \frac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit}$$

$$\text{Total claim} = \frac{\text{Rs.1,40,000}}{\text{Rs.1,75,000}} \times \text{Rs.64,500} = \text{Rs. 51,600}$$

Alternatively claim for increased cost of working can also be calculated applying the following method (first three calculations will be the same as in the earlier alternative).

(4) Calculation of claim for increased cost of working:

Least of the following :-

(i) Actual expense= Rs. 12,000

(ii) Expenditure x $\frac{\text{Gross profit on adjusted turnover}}{\text{Gross profit as above} + \text{Uninsured standing charges}}$

$$\text{Rs.12,000} \times \frac{(25/100) \times \text{Rs.7,00,000}}{[(25/100) \times \text{Rs.7,00,000}] + \text{Rs.50,000}} = \text{Rs. 9,333 approx.}$$

Where,

Adjusted turnover	Rs.
Turnover from 16.06.2007 to 15.06.2008	5,60,000
Add: 25% increase	<u>1,40,000</u>
	<u>7,00,000</u>

(iii) Gross profit on sales generated due to additional expenditure =25% x Rs. 70,000 =Rs. 17,500.

Rs. 9,333 being the least, shall be the increased cost of working.

(5) Calculation of total loss of profit

	Rs.
Loss of profit	57,500
Add: Increased cost of working	<u>9,333</u>

	66,833
Less: Saving in insured standing charges	<u>2,000</u>
	<u>64,833</u>

(6) Calculation of insurable amount:

Adjusted turnover x G.P. rate.

= Rs. 7,00,000 x 25% =Rs. 1,75,000

(7) Total claim for consequential loss of profit:

= $\frac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit}$

= $\frac{\text{Rs.1,40,000}}{\text{Rs.1,75,000}} \times \text{Rs.64,833}$

= Rs. 51,866.40

15.

Realization Account

		Rs.			Rs.
Dr.			By		Cr.
To Machinery	1,20,000		By Creditors		70,000
To Land	1,74,000		By AB (P) Ltd. – Purchase consideration		6,00,000
				(Refer Working Note)	
To Motor Cycles	30,000		By A's Capital A/c		3,000
To Furniture & Fittings	11,000		By B's Capital A/c		6,000
To Stock	2,35,000		By C's Capital A/c (2,000 + 40,000)		42,000
To Debtors	43,000		By Cash A/c (Sale of Motor Cycle)		13,000
To Cash (payment to creditors)	70,000				
To Profit transferred to					
A's Capital A/c	8,500				
B's Capital A/c	17,000				
C's Capital A/c	<u>25,500</u>				
	<u>7,34,000</u>				<u>7,34,000</u>

Partners' Capital Accounts

Dr		A	B	C		A	B	C	Cr.
		Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	
To	Current A/c	-	-	1,00,000	By	Balance b/d	1,00,000	2,00,000	3,00,000
To	Realisation A/c (Assets taken over)	3,000	6,000	42,000	By	Current A/c	39,420	60,580	-
To	Equity shares in AB (P) Ltd.	3,00,000	3,00,000	-	By	A's Loan A/c	30,000	-	-
To	Cash A/c	-	-	1,83,500	By	Realization A/c (Profit)	8,500	17,000	25,500
		<u> </u>	<u> </u>	<u> </u>	By	Cash A/c	<u>1,25,080</u>	<u>28,420</u>	<u> </u>
		<u>3,03,000</u>	<u>3,06,000</u>	<u>3,25,500</u>			<u>3,03,000</u>	<u>3,06,000</u>	<u>3,25,500</u>

Cash Account

Dr.		Rs.		Rs.	Cr.	
To	Balance b/d		87,000	By	Realisation A/c	70,000
To	Realisation A/c		13,000	By	C's Capital A/c	1,83,500
To	A's Capital A/c		1,25,080			
To	B's Capital A/c		<u>28,420</u>			
			<u>2,53,500</u>			<u>2,53,500</u>

Balance Sheet of AB (P) Ltd.

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital:		Fixed Assets:	
12,000 Equity Shares of Rs.100 each	<u>12,00,000</u>	Goodwill	88,000
		Land	1,74,000

Assets	Value	% of provision	Provision (Rs. in '000s)
Standard Assets	5,000	0.40	20.00
Sub-standard Assets*	1,120	10	112.00
Doubtful Assets			
100% unsecured	200	100	200.00
Secured:			
Less than 1 year	50	20	10.00
More than 1 year but less than 3 years	300	30	90.00
More than 3 years	300	100	300.00
Loss Assets	200	100	<u>200.00</u>
Total Provision			<u>932.00</u>

17. 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, 2009

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>

* Sub-standards assets are assumed to be fully secured.

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>

18. (i) 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.

- (ii) 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

- (iii) If some partner is having debit balance in his capital account and is not insolvent, then he cannot be called upon to bear the loss on account of the insolvency of the other partner.

Hence, Y need not bear the loss due to insolvency of partner X.

(iv) Statement showing calculation of profit for the year 31.3.2009

	Rs.
Capital as on 31.3.2009	1,50,000
Add: Drawings during the year	<u>40,000</u>
	1,90,000
Less: Additional capital introduced in February 2009	<u>(25,000)</u>
	1,65,000
Less: Capital as on 1.4.2008	<u>(60,000)</u>
Net profit for the year	<u>1,05,000</u>

- (v)

Nagpur branch must include the inventory in its books as goods in transit.

The following journal entry must be made by the branch:

Goods in transit A/c	Dr.	50,000
To Head office A/c		50,000

[Being Goods sent by Head office is still in transit on the closing date].

- (vi) 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.

- (vii) 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)
- (viii) 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.

(ix)	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>
Net Profit	<u>27.90</u>
No. of shares	9.30 crores
$\text{EPS} = \frac{\text{Net profit}}{\text{No. of shares}}$	
$= \frac{27.90}{9.30}$	
$= \text{Rs.3 per share.}$	

(x)	Journal Entry	
	Dr.	Rs.
Profit and Loss A/c	1,50,000	Rs.
To Insurance Company A/c		1,50,000
[Being the shortfall in insurance claim is the loss, transferred to Profit and Loss A/c]		

(xi) '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.

19. (i) Liquidator's Final Statement of Account

	Rs.		Rs.
To Assets Realised	20,00,000	By Liquidator's remuneration	
To Receipt of call money on 29,000 equity shares @ 2 per share	58,000	2.5% on 23,20,000*	58,000
		2% on 50,000	1,000
		2% on 13,12,745 (W.N.3)	<u>26,255</u>
		By Liquidation Expenses	10,000
		By Debenture holders having a floating charge on all assets	6,00,000
		By Preferential creditors	50,000
		By Unsecured creditors	<u>13,12,745</u>
	<u>20,58,000</u>		<u>20,58,000</u>

(ii) Percentage of amount paid to unsecured creditors to total unsecured creditors

$$= \frac{13,12,745}{18,30,000} \times 100 = 71.73\%$$

Working Notes:

1. Unsecured portion in partly secured creditors = Rs.3,50,000 - Rs.3,20,000
= Rs.30,000
2. Total unsecured creditors = 18,00,000 + 30,000 (W.N.1)
= Rs.18,30,000
3. Liquidator's remuneration on payment to unsecured creditors
Cash available for unsecured creditors after all payments including payment to preferential creditors & liquidator's remuneration on it = Rs.13,39,000

* Total assets realised = Rs.20,00,000 + Rs.3,20,000 = Rs.23,20,000

$$\text{Liquidator's remuneration on unsecured creditors} = \frac{2}{102} \times 13,39,000 = \text{Rs. } 26,255$$

or on Rs. 13,12,754 x 2/100 = Rs. 26,255

20. (i) Journal entries in the books of Versa Ltd.

		Rs. in crores	
Particulars		Debit	Credit
		Rs.	Rs.
1 st April, 2009	12% Preference share capital A/c Dr.	75	
	To Preference shareholders A/c (Being preference share capital account transferred to shareholders account)		75
	Preference shareholders A/c Dr.	75	
	To Bank A/c (Being payment made to shareholders)		75
	Shares buy back A/c Dr.	25	
	To Bank A/c (Being 50 lakhs equity shares bought back @ Rs.50 per share)		25
	Equity share capital A/c (50 Lakhs Rs.10) Dr.	5	
	Securities premium A/c (50 Lakhs Rs.40) Dr.	20	
	To Shares buy back A/c (Being cancellation of shares bought back)		25
	Revenue reserve A/c Dr.	80	
	To Capital Redemption Reserve A/c (Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)		80

(ii) Balance Sheet of Versa Ltd as at 1.4.2009

Liabilities	(Rs. in crores)	Assets	(Rs. in crores)
Share Capital:		Fixed assets:	
Authorised	<u>100</u>	Cost	100
Issued, subscribed and paid up:		Less: Provision for depreciation	<u>(100)</u> Nil

200 lakhs equity shares of Rs.10 each		20	
Reserves and surplus:			Investment at cost
Capital reserve	15		(Market value Rs.400 crores)
Capital redemption reserve	80		Current assets as on 31.3.2008
Securities premium (25-20)	5		Less: Bank payment for redemption and buy back
Revenue reserve (260-80)	<u>180</u>	280	<u>(100)</u>
Current liabilities		<u>40</u>	
		<u>340</u>	<u>340</u>

(iii) Net asset value of equity shares

Particulars	(Rs. in crores)	
	Amount	Amount
Assets:		
Fixed Assets	Nil	
Investments (at market value)	400	
Current assets	<u>240</u>	640
Less: Liabilities:		
Current liabilities		<u>(40)</u>
Net assets available for equity share holders		<u>600</u>
Number of equity shares outstanding as on 1.4.2008		2 crores
Value per equity share of Rs.10 each (600 ÷ 2)		Rs.300

21. Journal Entries in the Books of Bharat Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.2007	Employees compensation expenses 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)			
31.3.2008	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)			
31.3.2009	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)			
30.6.2009	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)	
01.10.2009	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 31.3.2009, Bharat 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>

22. While preparing department accounts, expenses should be allocated among the different departments on the basis of the following principles :
1. Expenses incurred specially for each department are charged directly thereto e.g., insurance charges of stock held by a department.
 2. Common expenses, the benefit of which is shared by all the departments and which are capable of precise allocation, (e.g., rent, lighting expenses etc.) are distributed among the departments concerned on some equitable basis considered suitable in the circumstances of the case. Rent is charged to different departments according to the floor area occupied by each department, having regard to any favourable location specially allocated to a department. Lighting and heating expenses are distributed on the basis of consumption of energy by each department and so on.
 3. Common expenses which are not capable of accurate measurement are dealt with as follows:
 - (i) Selling expenses, e.g., discount, bad debts, selling commission, etc. are charged on the basis of sales.

- (ii) Administrative and other expenses, e.g., salaries of managers, directors, common advertisement expenses, depreciation on assets, etc., are allocated equally among all the departments that have benefited thereby. Alternatively, no allocation may be made and such expenses may be charged to the combined profit and loss account.
23. (a) 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.
- (b) In the case of dissolution of a partnership firm due to insolvency, Garner vs Murray rule is applicable at the time of any partner becoming insolvent. It requires -
1. That the solvent partners should bear the loss arising due to insolvency of a partner in their capital ratio after making adjustments for past accumulated reserves, profits or losses, drawings, interest on drawings/capitals, remuneration to partners etc., to the date of dissolution but before making adjustment for profit or loss on realization in case of fluctuating capital. In case of fixed capital no such adjustments are required.
 2. That the solvent partners should bring in cash equal to their respective shares of the loss on realization.
- This rule is not applicable when:
1. Only one partner is solvent.
 2. All partners are insolvent.
 3. The partnership deed provides for a specific method to be followed in case of insolvency of a partner, then the conditions given in the deed would prevail.
- (c) There are many accounting softwares available in the market. To choose the accounting software appropriate to the need of the organization is a difficult task, some of the criteria for selection could be the following:
1. Fulfillment of business requirements: Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
 2. Completeness of reports: Some packages might provide extra reports or the reports match the requirements more than the others.

3. Ease of Use: Some packages could be very detailed and cumbersome compare to the others.
 4. Cost: The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
 5. Reputation of vendor: Vendor support is essential for any software. A stable vendor with good reputation and track records will always be preferred.
 6. Regular updates: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.
- (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) Donations may have been raised either for meeting some revenue or capital expenditure; those intended for the first mentioned purpose are credited directly to the Income and Expenditure Account but others, if the donors have declared their specific intention, are credited to special fund account and in the absence thereof, to the Capital Fund Account. If any investments are purchased out of a special fund or an asset is acquired therefrom, these are disclosed separately. Any income received from such investments or any donations collected for a special purpose are credited to an account indicating the purpose and correspondingly the expenditure incurred in carrying out the purpose of the fund is debited to this account. On no account any such expense is charged to the Income and Expenditure Account. The term "Fund" is strictly applicable to the amounts collected for a special purpose when these are invested, e.g. Scholarship Fund, Prize Fund etc. In other cases, when the amounts collected are not invested in securities or assets distinguishable from those belonging to the institution, the word "Account" is more appropriate e.g. Building Account, Tournament Account etc.
- (f) A change in accounting policy should be made in the following conditions:
- (i) If the change is required by some statute or for compliance with an Accounting Standard.
 - (ii) Change would result in more appropriate presentation of the financial statement.

Change in accounting policy may have a material effect on the items of financial statements. For example, if depreciation method is changed from straight-line method to written-down value method, or if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial

statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit / loss.

- (g) 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.
- (h) Following are the advantages of outsourcing the accounting functions:
 - (i) The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.
 - (ii) The organisation is able to utilise the expertise of the third party in undertaking the accounting work.
 - (iii) Storage and maintenance of the data is in the hand of professional people.
 - (iv) The organisation is not bothered about people leaving the organisation in key accounting positions.
 - (v) The proposition is proving to be economically more sensible.
- (i) Following are the advantages of self-balancing ledger system:
 - (i) It fixes the responsibility on the ledger keeper who had to balance the ledger. The error is localised.
 - (ii) Interim accounts can be prepared without personal ledger to be balanced.
 - (iii) The total amount due from debtors and total amount payable to suppliers and creditors is readily available.
 - (iv) The maintenance of general ledger would be easy as the voluminous debtors and creditors details are maintained in control accounts.
- (j) 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.
24. (a) The loss due to break out of fire is an example of event occurring after the balance sheet date. The event does not relate to conditions existing at the balance sheet date. It has not affected the financial position as on the date of balance sheet and therefore requires no specific adjustments in the financial statements. However, paragraph 8.6 of AS 4 states that disclosure is generally made of events in subsequent periods that represent unusual changes affecting the existence or substratum of the enterprise at the balance sheet date. In the given case, the loss of assets in a factory is considered to be an event affecting the substratum of the enterprise. Hence, as recommended in paragraph 15 of AS 4, disclosure of the event should be made in the report of the approving authority.
- (b) As per para 9 of AS 11 all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Therefore goods purchased on 24.02.2008 and corresponding creditors would be recorded at Rs. $46.60 = 1\text{US\$}$ i.e. $1000 \times 46.60 = 46,600/-$
- As per para 11 of AS 11, at balance sheet date all monetary items should be reported using the closing rate, therefore creditors of US\$ 10000 outstanding on 31.03.2008 will be reported. i.e. $1000 \times 47.00 = 47,000/-$
- Exchange Loss $(47,000 - 46,600) = 400$ should be debited in P&L Account for the year 2007-08
- Exchange differences on settlement on monetary items should be transferred to P&L Account as gain or loss, therefore $1000 \times 47.50 = 47,500 - 47,000 = \text{Rs. } 500$ will be debited to P&L Account for the year 2008-09.
- (c) As per para 10 of AS 12 'Accounting for Government Grants', where the government grants are of the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as

capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue. Thus it is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to capital reserve. Therefore, the accounting treatment followed by the company is not proper.

(d)

(a) Amount of foreseeable loss	(Rs in lakhs)
Total cost of construction (500 + 105 + 495)	1,100
Less: Total contract price	<u>1,000</u>
Total foreseeable loss to be recognized as expense	<u>100</u>

According to para 35 of AS 7 (Revised 2002), when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(b) Contract work-in-progress i.e. cost incurred to date are	(Rs in lakhs)
Rs. 605 lakhs	
Work certified	500
Work not certified	<u>105</u>
	<u>605</u>

This is 55% ($605/1,100 \times 100$) of total costs of construction.

(c) Proportion of total contract value recognised as revenue as per para 21 of AS 7 (Revised).

55% of Rs. 1,000 lakhs = Rs. 550 lakhs

(d) Amount due from/to customers = Contract costs + Recognised profits – Recognised losses – (Progress payments received + Progress payments to be received)

= [605 + Nil – 100 – (400 + 140)] Rs. in lakhs

= [605 – 100 – 540] Rs. in lakhs

Amount due to customers = Rs. 35 lakhs

The amount of Rs. 35 lakhs will be shown in the balance sheet as liability.

(e) The relevant disclosures under AS 7 (Revised) are given below:

	Rs. in lakhs
Contract revenue	550
Contract expenses	605
Recognised profits less recognized losses	(100)
Progress billings (400 + 140)	540
Retentions (billed but not received from contractee)	140
Gross amount due to customers	35

(e) The treatment for total interest amount of Rs. 68 lakhs can be given as follows:

Purpose	Nature	Interest to be	Interest to be charged to
		capitalized	profit and loss account
		Rs. in lakhs	Rs. in lakhs
Modernisation and renovation of plant and machinery	Qualifying asset*	$\frac{\text{Rs.}62 \times 520}{680} = 47.41$	
Advance to suppliers for additional assets	Qualifying asset*	$\frac{\text{Rs.}62 \times 30}{680} = 2.74$	
Working Capital	Not a qualifying asset	—	$\frac{62 \times 130}{680} = 11.85$
		<u>50.15</u>	<u>11.85</u>

For details of para 6 of AS 16 'Borrowing Costs', Qualifying asset, substantial period of time, refer Answer 3(b).

25. (a) The error in the recording of closing stock of the year ended 31st March, 2008 must have also resulted in overstatement of profits of previous year, brought forward to the current year ended 31st March, 2009. Vide para 4 of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, the rectifications as required in the current year are 'Prior Period Items'.

* Alternatively, the plant and machinery and additional assets may be assumed to be non-qualifying assets. In that case, the entire amount of interest Rs. 62 lakhs will be recognized as expense in the profit and loss account for the year ended 31st March, 1998.

Accordingly, Rs. 20,000 should be deducted from opening stock in the profit and loss account. And Rs. 20,000 should be charged as prior period adjustment in the profit and loss account for the year ended 31st March 1998 in accordance with para 15 of AS 5 (Revised) which requires that the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

- (b) In accordance with AS 29 'Provisions, Contingent Liabilities and Contingent Assets' and ASI 30 'Applicability of AS 29 to Onerous Contracts', if an enterprise has a contract that is onerous, the present obligation under the contract should be recognized and measured as a provision. In the given case, the operating lease contract has become onerous* as the economic benefit of lease contract for next 33 months up to 31.12.2010 will be nil. However, the lessee, Mini Ltd., has to pay lease rent of Rs. 66,00,000 (i.e.2,00,000 p.m. for next 33 months).

Therefore, provision on account of Rs.66,00,000 is to be provided in the accounts for the year ending 31.03.08. Hence auditor is right.

- (c) Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realisable value. AS 9 on "Revenue Recognition" states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at Net-realizable value."

Bedsheets do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realizable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

- (d) According to paras 55 and 56 of AS 26 'Intangible Assets', "expenditure on an intangible item should be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset".

In the given case, advertisement expenditure of Rs. 2 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of Rs.25 crores. Here, no intangible asset or other asset is acquired or created that can be recognised. Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of Rs.2 crores to the Profit and Loss account of the year is correct.

* For a contract to qualify as an onerous contract, the unavoidable costs of meeting the obligation under the contract should exceed the economic benefits expected to be received under it.

(e) Interest on Debentures @ 10% for the year	$36,000 \times 50 \times \frac{10}{100}$
	= Rs.1,80,000
Tax on interest @ 30%	= Rs.54,000
Diluted Earnings (Adjusted net profit)	= (60,00,000 + 1,80,000-54,000)
	= Rs. 61,26,000