## PAPER – 5: ADVANCED ACCOUNTING

## PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY For MAY, 2017EXAMINATION

### A. Applicable for May, 2017Examination

#### I. Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 31st October, 2016 will be applicable for May, 2017Examination.

#### II. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 have been made applicable for May, 2017examination.

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarizes the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the accounting standards relevant for Paper 5:

| Name of the standard | Para no. | As per the Companies (Accounting Standards) Rules, 2006 | As per the Companies (Accounting Standards) Amendment Rules, 2016 | Implication |
|---|---|---|---|---|
| **AS 4** | Footnote to AS 4 | Pursuant to AS 29, Provisions, Contingent Liabilities and Contingent Assets, becoming mandatory in respect of accounting periods commencing on or after 1-4-2004, all paragraphs of this Standard that deal | All paragraphs of this Standard that deal with contingencies are applicable only to the extent not covered by other Accounting Standards prescribed by the Central Government. For example, the | Footnote has been modified. |

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| | | with contingencies (viz. paragraphs 1(a), 2, 3.1, 4 (4.1 to 4.4), 5 (5.1 to 5.6), 6, 7 (7.1 to 7.3), 9.1 (relevant portion), 9.2, 10, 11, 12 and 16) stand withdrawn except to the extent they deal with impairment of assets not covered by other Indian Accounting Standards. For example, impairment of receivables (commonly referred to as the provision for bad and doubtful debts), would continue to be covered by AS 4. | impairment of financial assets such as impairment of receivables (commonly known as provision for bad and doubtful debts) is governed by this Standard. | |
| | 8.5 | There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. Such items include the amount of dividend proposed or declared by the enterprise after the balance sheet date in respect of the period covered by the financial statements. | There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. For example, if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognized as a liability at the balance sheet date | No liability for proposed dividends must be created now. Such proposed dividends are to be disclosed in the notes. |

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| | | | because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes. | |
| | 14 | Dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted. | If an enterprise declares dividends to shareholders after the balance sheet date, the enterprise should not recognise those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such dividends should be disclosed in notes. | No liability for proposed dividends should be created now. Such proposed dividends are to be disclosed in the notes. |
| **AS 14** | 3(a) | Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies. | Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'. | Definition of Amalgamation has been made broader by specifically including 'merger'. |
| | 18 and 39 | In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., | In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., | Corresponding debit on account of statutory reserve in case of amalgamation in the nature of |

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| | | 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed. | 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed. | purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'miscellaneous expenditure' in Schedule III to the Companies Act, 2013 |
| **AS 29** | 35 (An extract) | The amount of a provision should not be discounted to its present value. | The amount of a provision should not be discounted to its present value except in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment. The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) | Now discounting of provision for decommissioning, restoration and similar liabilities should be done as per the pre-tax discount rate as mentioned therein. |

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| | | | should not reflect risks for which future cash flow estimates have been adjusted. Periodic unwinding of discount should be recognized in the statement of profit and loss. | |
| | 73 | | **Transitional Provisions** All the existing provisions for decommissioning, restoration and similar liabilities (see paragraph 35) should be discounted prospectively, with the corresponding effect to the related item of property, plant and equipment. | Discounting of above existing provisions and similar liabilities should be prospectively, with the corresponding effect to the related item of property, plant and equipment. |

**III Maintenance of Statutory Liquidity Ratio (SLR)**

In exercise of the powers conferred by sub-section (2A) of Section 24 read with Section 51 and Section 56 of the Banking Regulation Act, 1949 (10 of 1949) and in partial modification of the Notification DBR.No.Ret.BC.63/12.01.001/2015-16 dated December 10, 2015, the Reserve Bank hereby specifies that:

(i) with effect from the dates given below, every scheduled commercial bank, local area bank, primary co-operative bank, state co-operative bank and central cooperative bank shall maintain in India assets (hereinafter referred to as 'SLR assets') the value of which shall not, at the close of business on any day, be less than:

(a) 20.75 per cent from October 1, 2016; and

(b) 20.50 per cent from January 7, 2017

of their total net demand and time liabilities in India as on the last Friday of the second preceding fortnight, valued in accordance with the method of valuation specified by the Reserve Bank from time to time; and

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(ii) such SLR assets shall be maintained by:

A. Scheduled commercial banks and local area banks, as -

(a) cash; or

(b) gold as defined in Section 5(g) of Banking Regulation Act, 1949 valued at a price not exceeding the current market price: or

(c) unencumbered investment in any of the following instruments [hereinafter referred to as Statutory Liquidity Ratio securities ("SLR securities")], namely:-

(1) Dated securities of the Government of India issued from time to time under the market borrowing programme and the Market Stabilization Scheme; or

(2) Treasury Bills of the Government of India; or 3) State Development Loans (SDLs) of the State Governments issued from time to time under the market borrowing programme:

(d) the deposit and unencumbered approved securities required, under sub-section (2) of section 11 of the Banking Regulation Act, 1949(10 of 1949), to be made with the Reserve Bank by a banking company incorporated outside India;

(e) any balance maintained by a scheduled bank with the Reserve Bank in excess of the balance required to be maintained by it under section 42 of the Reserve Bank of India Act,1934 (2 of 1934);

Provided that the instruments referred to in items (1) to (3) above that have been acquired under reverse repo with Reserve Bank of India, shall not be included as SLR securities for the purpose of maintenance of SLR assets up to October 2, 2016.

**IV Maintenance of Cash Reserve Ratio (CRR)**

Reserve Bank of India has decided to reduce the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks by 25 basis points from 4.25 per cent to ***4.00 per cent of their Net Demand and Time Liabilities (NDTL)*** with effect from the fortnight beginning February 09, 2013 vide circular DBOD.No.Ret.BC.76/ 12.01.001 /2012-13 dated January 29, 2013. The Local Area Banks shall also maintain CRR at 3.00 per cent of its net demand and time liabilities up to February 08, 2013 and 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

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**B. Not applicable for May, 2017examination**

**Non-Applicability of Ind ASs for May, 2017Examination**

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS have not been made applicable for May, 2017Examination.

## PART – II : QUESTIONS AND ANSWERS

## QUESTIONS

### Partnership Accounts

### Dissolution of a partnership firm

1. L, M and N were in partnership sharing profits and losses in the ratio of 3:2:1 respectively. They decided to dissolve the partnership firm on 31.3.2016, when the Balance Sheet of the firm appeared as under:

**Balance Sheet of the firm as on 31.3.2016**

| *Liabilities* | ₹ | | *Assets* | ₹ |
|---|---|---|---|---|
| Sundry Creditors | | 4,25,250 | Plant and Machinery | 7,97,850 |
| Bank Overdraft | | 4,54,837 | Furniture | 48,487 |
| Joint Life Policy Reserve | | 1,99,125 | Stock | 1,77,525 |
| Loan from Mrs.L | | 1,12,500 | Sundry Debtors | 4,00,500 |
| Capital Accounts: | | | Joint Life Policy | 1,99,125 |
| | | | Commission | |
| L | 3,15,000 | | Receivable | 1,05,413 |
| M | 1,68,750 | | Cash in Hand | 36,562 |
| N | 90,000 | 5,73,750 | | |
| | | 17,65,462 | | 17,65,462 |

The following details are relevant for dissolution:

(i) The joint life policy was surrendered for ₹1,74,375.

(ii) L took over plant and machinery for ₹6,75,000.

(iii) L also agreed to discharge bank overdraft and loan from Mrs. L.

(iv) Furniture and stocks were divided equally between L and M at an agreed valuation of ₹2,70,000.

(vi) Sundry debtors were assigned to firm's creditors in full satisfaction of their claims.

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(vi) Commission receivable was received in time.

(vii) A bill discounted was subsequently returned dishonoured and proved valueless ₹23,062 (including ₹375 noting charges).

(viii) L paid the expenses of dissolution amounting to ₹13,500.

You are required to prepare:

(i) Realisation Account

(ii) Partners' Capital Accounts and

(ii) Cash Account.

**Amalgamation of partnership firms**

2. Firm Bhalla & Co. consists of partners Maan and Hello sharing Profits and Losses in the ratio of 3 : 2. The firm Chand & Co. consists of partners Hello and Proud sharing Profits and Losses in the ratio of 5 : 3. On 31st March, 2016 it was decided to amalgamate both the firms and form a new firm Chand Bhalla & Co., wherein Maan, Hello and Proud would be partners sharing Profits and Losses in the ratio of 4:5:1.

**Balance Sheet as at 31.3.2016**

| *Liabilities* | *Bhalla & Co.* ₹ | *Chand & Co.* ₹ | *Assets* | *Bhalla & Co.* ₹ | *Chand & Co.* ₹ |
|---|---|---|---|---|---|
| Capitals: | | | Cash in hand/bank | 2,40,000 | 1,80,000 |
| Maan | 9,00,000 | --- | Debtors | 3,60,000 | 4,80,000 |
| Hello | 6,00,000 | 4,50,000 | Stock | 300,000 | 1,20,000 |
| Proud | --- | 3,00,000 | Vehicles | --- | 5,40,000 |
| Reserve | 3,00,000 | 2,40,000 | Machinery | 7,20,000 | --- |
| Creditors | 7,20,000 | 3,30,000 | Building | 9,00,000 | --- |
| | 25,20,000 | 13,20,000 | | 25,20,000 | 13,20,000 |

The following were the terms of amalgamation:

(i) Goodwill of Bhalla & Co., was valued at ₹ 4,50,000. Goodwill of Chand & Co. was valued at ₹2,40,000. Goodwill account not to be opened in the books of the new firm but adjusted through the Capital accounts of the partners.

(ii) Building, Machinery and Vehicles are to be taken over at ₹ 12,00,000, ₹ 6,00,000 and ₹ 4,44,000 respectively.

(iii) Provision for doubtful debts at ₹30,000 in respect of Bhalla & Co. and ₹ 24,000 in respect of Chand & Co. are to be provided.

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You are required to:

(i) Show, how the Goodwill value is adjusted amongst the partners.

(ii) Prepare the Balance Sheet of Chand Bhalla & Co. as at 31.3.2016 by keeping partners capital in their profit sharing ratio and by taking capital of 'Hello' as the basis. The excess or deficiency to be kept in the respective Partners' Current account.

**Conversion of Partnership firm to Company**

3. Arun and Varun, sharing profits and losses equally, directed to convert their business into a limited company on 31st December, 2016 when their balance sheet stood as follows:

| *Liabilities* | ₹ | ₹ | *Assets* | ₹ |
|---|---|---|---|---|
| Sundry creditors | | 96,000 | Sundry debtors | 1,20,000 |
| Loan creditors | | 80,000 | Bills receivable | 20,000 |
| Bank overdraft | | 32,000 | Stock in trade | 72,000 |
| Reserve fund | | 12,000 | Patents | 16,000 |
| Capital accounts: | | | Plant and machinery | 32,000 |
| Arun | 80,000 | | Land and building | 1,20,000 |
| Varun | 80,000 | 1,60,000 | | |
| | | 3,80,000 | | 3,80,000 |

(a) The goodwill of the firm was to be valued at two years' purchase of the profits of the previous three years.

(b) The loan creditors were agreed to accept 7½% redeemable preference shares in settlement of their claim.

(c) Land and buildings and plant and machinery were to be valued at ₹2,00,000 and ₹48,000 respectively.

(d) The vendors were to be allotted equity shares of the value of ₹2,10,000.

(e) The past working results of the firm showed that they had made profits of ₹60,000 in 2014, ₹72,000 in 2015 and ₹84,000 in 2016 after setting aside ₹4,000 to reserve fund each year.

You are required to show realisation account and partners' capital accounts in the books of the firm assuming that all the transactions are duly completed.

**LLP**

4. Explain the Limitations of Liability of Limited Liability Partnership (LLP) and its partners.

**Employees Stock Option Plan**

5. At the beginning of year 1, an enterprise grants 10,000 stock options to a senior executive, conditional upon the executive remaining in the employment of the enterprise until the end

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of year 3. The exercise price is ₹ 40. However, the exercise price drops to ₹ 30 if the earnings of the enterprise increase by at least an average of 10 per cent per year over the three-year period.

On the grant date, the enterprise estimates that the fair value of the stock options, with an exercise price of ₹ 30, is ₹ 16 per option. If the exercise price is ₹ 40, the enterprise estimates that the stock options have a fair value of ₹ 12 per option. During year 1, the earnings of the enterprise increased by 12 per cent, and the enterprise expects that earnings will continue to increase at this rate over the next two years. The enterprise, therefore, expects that the earnings target will be achieved, and hence the stock options will have an exercise price of ₹ 30. During year 2, the earnings of the enterprise increased by 13 per cent, and the enterprise continues to expect that the earnings target will be achieved.

During year 3, the earnings of the enterprise increased by only 3 per cent, and therefore the earnings target was not achieved. The executive completes three years' service, and therefore satisfies the service condition. Because the earnings target was not achieved, the 10,000 vested stock options have an exercise price of ₹ 40.

Calculate the amount to be charged to Profit and Loss Account every year on account of compensation expenses.

**Buy Back of Securities**

6. The following was the balance sheet of Mukta Ltd. as on 31st March, 2016

| *Equity & liability* | *₹ (in lakhs)* | *Assets* | *₹(in lakhs)* |
|---|---|---|---|
| Authorised Capital: | | Fixed Assets | 1,12,000 |
| Equity shares of ₹ 10 each | 80,000 | Investments | 24,000 |
| Issued Capital | | Cash at Bank | 13,200 |
| Equity Shares of ₹10 each Fully Paid Up | 64,000 | Trade Receivables | 66,000 |
| 10% Redeemable Preference Shares of 10 each, Fully Paid Up | 20,000 | | |
| Reserves & Surplus: | | | |
| Capital Redemption Reserve | 8,000 | | |
| Securities Premium | 6,400 | | |
| General Reserve | 48,000 | | |
| Profit & Loss Account | 2,400 | | |
| 9% Debentures | 40,000 | | |
| Trade Payables | 26,400 | | |
| | 2,15,200 | | 2,15,200 |

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On 1st April,2016 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹20 per Share. In order to make Cash available, the Company sold all the Investments for ₹25,200 Lakhs and raised a Bank Loan amounting to ₹16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium will be utilized to the maximum extents allowed by law.

**Underwriting of securities**

7. Aman Ltd. issued to public 16,000 10% Debentures of ₹ 100 each at a discount of 2% payable as to ₹ 50 on application and the balance on allotment. The issue was underwritten by Mr. X (Underwriters) for a commission of 1% of nominal value of debentures underwriting. The whole of the issue was subscribed to by the members of the public. The company paid underwriting commission in the form of its 10% Debentures of ₹ 100 each issued at par. Pass journal entries for the above mentioned transactions and draw the balance sheet of the Aman Ltd.

**Redemption of Debentures**

8. On 1st January, 2006 Raman ltd. allotted 20,000 9% Debentures of ₹100 each at par, the total amount having been received along with applications.

   (i) On 1st January, 2008 the Company purchased in the open market 2,000 of its own debentures @ ₹ 101 each and cancelled them immediately.

   (ii) On 1st January, 2011 the company redeemed at par debentures for ₹6,00,000 by draw of a lot.

   (iii) On 1st January, 2012 the company purchased debentures of the face value of ₹4,00,000 for 3,95,600 in the open market, held them as investments for one year and then cancelled them.

   (iv) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2016 when Securities Premium Account in the company's ledger showed a balance of ₹60,000.

   Pass journal entries for the above mentioned transactions ignoring debenture redemption reserve, debenture - interest and interest on own' debentures.

**Amalgamation of Companies**

9. P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2016 Their summarized Balance Sheets as on 31.03.2016 were as follows: (₹in '000)

| *Particulars* | *P Ltd.* | *Q Ltd.* |
|---|---|---|
| Source of Funds: | | |
| Equity share capital (₹10 each) | 300 | 280 |

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| | | |
|---|---|---|
| 9% preference share Capital (₹100 each) | 60 | 40 |
| Investment allowance Reserve | 10 | 4 |
| Profit and Loss Account | 8 | 12 |
| 10 % Debentures | 100 | 60 |
| Trade Payables | 50 | 30 |
| Tax provision | 14 | 8 |
| Equity Dividend Proposed | 60 | 56 |
| Total | 602 | 490 |
| Application of Funds: | | |
| Building | 120 | 100 |
| Plant and Machinery | 160 | 140 |
| Investments | 80 | 50 |
| Trade receivables | 90 | 70 |
| Inventories | 72 | 80 |
| Cash and Bank | 80 | 50 |
| Total | 602 | 490 |

From the following information, you are required to prepare the Balance Sheet as on 01.04.2016 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50 % Debenture are to be converted into Equity Shares of the New Company.

(ii) Investments are non- current in nature.

(iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.

(iv) 10 % of trade receivables were doubtful for both the companies. Inventories to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.

(vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹10 each of the new company at a premium of ₹ 5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

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**Internal Reconstruction of a Company**

10. The Balance Sheet of M/s. Lion Limited as on 31-03-2016 is given below:

| *Particulars* | *Note No.* | *Amount (₹ in lakh)* |
|---|---|---|
| Equity & Liabilities | | |
| Shareholders' Funds | | |
| Shares' Capital | 1 | 1,400 |
| Reserves & Surplus | 2 | (522) |
| Non-Current Liabilities | | |
| Long term Borrowings | 3 | 700 |
| Current Liabilities | | |
| Trade Payables | 4 | 102 |
| Other Liabilities | 5 | 24 |
| Total | | 1704 |
| Assets | | |
| Non-Current Assets | | |
| Fixed Assets | | |
| Tangible Assets | 6 | 750 |
| Current Assets | | |
| Current Investments | 7 | 200 |
| Inventories | 8 | 300 |
| Trade Receivables | 9 | 450 |
| Cash & Cash Equivalents | 10 | 4 |
| Total | | 1704 |

Notes to Accounts:

| | ₹ in Lakhs |
|---|---|
| (1) Share Capital | |
| Authorised : | |
| 200 lakh shares of ₹ 10 each | 2,000 |
| 8 lakh, 8% Preference Shares of ₹ 100 each | 800 |
| | 2,800 |
| Issued, Subscribed and paid up: | |

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| | | |
|---|---|---|
| | 100 lakh Equity Shares of ₹ 10 each, full paid up | 1,000 |
| | 4 lakh 8% Preference Shares of ₹ 100 each, fully paid up | 400 |
| | Total | 1400 |
| (2) | Reserves and Surplus | |
| | Debit balance of Profit & Loss A/c | (522) |
| (3) | Long Term Borrowings | |
| | 6% Debentures (Secured by Freehold Property) | 400 |
| | Directors' Loan | 300 |
| | | 700 |
| (4) | Trade Payables | |
| | Trade payables for Goods | 102 |
| (5) | Other Current Liabilities | |
| | Interest Accrued and Due on 6% Debentures | 24 |
| (6) | Tangible Assets | |
| | Freehold Property | 550 |
| | Plant & Machinery | 200 |
| | | 750 |
| (7) | Current Investment | |
| | Investment in Equity Instruments | 200 |
| (8) | Inventories | |
| | Finished Goods | 300 |
| (9) | Trade Receivables | |
| | Trade receivables for Goods | 450 |
| (10) | Cash and Cash Equivalents | |
| | Balance with Bank | 4 |

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

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(3) Debenture holders agreed to take one Freehold Property at its book value of ₹300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹400 lakh.

(6) All investments sold out for ₹250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Reconstruction Account; and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

**Liquidation of Company**

11. Given below is the Balance Sheet of OM Limited as on 31.3.2016:

| *Liabilities* | ₹ | *Assets* | ₹ |
|---|---|---|---|
| Share Capital: | | Fixed Assets: | |
| 14%, 1,60,000 cumulative preference | | Land | 1,60,000 |
| shares of ₹100 each fully paid up | 16,00,000 | Buildings | 6,40,000 |
| 32,000 equity shares of ₹100 each, | | Plant and Machinery | 21,60,000 |
| ₹60 per share paid up | 19,20,000 | Patents | 1,60,000 |
| Reserves and Surplus | NIL | Investments | NIL |
| Secured Loans: | | Current Assets: | |
| 14% debentures | 9,20,000 | Inventory at cost | 4,00,000 |
| (Having a floating charge on all assets) | | Sundry debtors | 9,20,000 |
| Interest accrued on above | | Cash at bank | 2,40,000 |
| debentures | 1,28,800 | Profit and Loss A/c | 9,60,000 |
| (Also having a floating charge as above) | | | |

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| | | | |
|---|---|---|---|
| Loan on mortgage of land and building | 6,00,000 | | |
| Unsecured Loan | NIL | | |
| Current liabilities | | | |
| Trade payables | 4,71,200 | | |
| | 56,40,000 | | 56,40,000 |

On 31.3.2016 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Sundry creditors include preferential creditors amounting to ₹1,20,000.

The assets realized the following sums:

Land ₹3,20,000; Buildings ₹8,00,000; Plant and machinery ₹20,00,000; Patent ₹2,00,000; Inventory₹6,40,000; Sundry debtors ₹8,00,000.

The expenses of liquidation amounted to ₹1,17,736. The liquidator is entitled to a commission of 2% on all assets realized (except cash at bank) and 2% on amounts among unsecured creditors other than preferential creditors. All payments were made on 30th June, 2016. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account.

**Financial Statements of Insurance Companies**

12. From the following information as on 31st March, 2016 of Xeta Insurance Co. Ltd. engaged in fire insurance business, prepare the Revenue Account, reserving 40% of the net premiums for unexpired risks and an additional reserve of ₹7,00,000:

| Particulars | Amount ₹ |
|---|---|
| Reserve for unexpired risk on 31st March, 2015 | 15,00,000 |
| Additional reserve on 31st March, 2015 | 3,00,000 |
| Claims paid | 19,20,000 |
| Estimated liability in respect of outstanding claims on 31st March, 2015 | 1,95,000 |
| Estimated liability in respect of outstanding claims on 31st March, 2016 | 2,70,000 |
| Expenses of management (including ₹ 90,000 in connection with claims) | 8,40,000 |
| Re-insurance premium paid | 2,25,000 |
| Re-insurance recoveries | 60,000 |
| Premiums | 33,60,000 |
| Interest and dividend (gross before TDS) | 1,50,000 |

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| | |
|---|---|
| Profit on sale of investments | 30,000 |
| Commission | 3,50,000 |

**Banking companies**

13. The following is an extract from the Trial Balance of Jeevan Bank Ltd. as at 31st March, 2016:

| | |
|---|---|
| Rebate on bills discounted as on 1-4- 2015 | 1,36,518 (Cr.) |
| Discount received | 3,40,312 (Cr.) |

Analysis of the bills discounted reveals as follows:

| *Amount (₹)* | *Due date* |
|---|---|
| 5,60,000 | June 1, 2016 |
| 17,44,000 | June 8,2016 |
| 11,28,000 | June 21, 2016 |
| 16,24,000 | July 1, 2016 |
| 12,00,000 | July 5, 2016 |

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2016 and pass Journal Entries. The rate of discount may be taken at 10% per annum.

**Departmental Accounts**

14. Rama Limited is a retail organisation with several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost, plus fixed percentage (mark-up) to give the normal selling price. The mark up is credited to a Memorandum Departmental "Mark-up Account". Any reduction in selling prices (mark-down) will require adjustment in the stock account and in mark-up account. The mark up for Department A for the last three years has been 40%. Figures relevant to Department A for the ended 31st March, 2016were as follows:

Stock 1st April, 2015 at cost, ₹ 2,40,000, Purchases at cost ₹ 5,40,000, Sales ₹ 9,60,000

It is further ascertained that:

(a) Goods purchased in the period were marked down by ₹ 4,200 from a cost of ₹ 48,000. Marked-down stock costing ₹12,000 remained unsold on 31st March 2016.

(b) Stock shortages at the year end, which had cost ₹3,600 were to be written off.

(c) Stock at 1st April 2015 including goods costing ₹24,600 had been sold during the year and has been mark down in the selling price by ₹2,220. The remaining stock had been sold during the year.

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(d) The departmental closing stock is to be valued at cost subject to adjustments for mark-up and mark-down.

Required: Prepare (i) Departmental Trading Account (ii) Memorandum Stock Account (iii) Memorandum Mark-up Account for the year 2015- 2016.

**Branch Accounting**

15. L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. The Pune branch makes a profit of 33-1/3% on cost which the Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of each of the branches and find out the profit or loss made by each of them after taking into account the reserve for unrealised profits:

| *Particulars* | *Pune Branch ₹* | *Goa Branch ₹* |
|---|---|---|
| Opening Stock | 40,000 | 30,000 |
| Purchases (Including Inter Branch transfers) | 2,00,000 | 2,50,000 |
| Sales | 2,80,000 | 2,95,625 |
| Chargeable Expenses | 15,000 | 27,500 |
| Closing Stock | 30,000 | 43,500 |
| Office and Adm. Expenses | 13,250 | 7,000 |
| Selling and Distribution Expenses | 15,000 | 10,000 |

Information:

(i) Opening stock at Pune Branch includes goods of ₹ 10,000 taken from Goa Branch, (ii) Opening stock at Goa Branch includes goods of ₹ 17,000 taken from Pune Branch at cost to receiving branch, (iii) The Pune Branch sales includes transfer of goods to Goa Branch at selling price ₹ 20,000 (iv) The sales of Goa Branch include transfer of goods to Pune Branch at selling price ₹ 15,000. (v) Closing stock at Pune Branch includes goods received from Goa Branch ₹ 5,000. (iv) Closing stock at Goa Branch includes goods of ₹ 4,000 received from Pune Branch.

**Foreign branch**

16. M/s Heera & Co. has head office at U.S.A. and branch in Patna(India). Patna branch is an integral foreign operation of Heera & Co.

Patna branch furnishes you with its trial balance as on 31st March, 2016 and the additional information given thereafter:

| | *Dr.* | *Cr.* |
|---|---|---|
| | *(Rupees in thousands)* | |
| Stock on 1st April, 2015 | 300 | |

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| | | |
|---|---|---|
| Purchases and Sales | 800 | 1,200 |
| Sundry Debtors & Creditors | 400 | 300 |
| Bills of Exchange | 120 | 240 |
| Wages & Salaries | 560 | - |
| Rent, Rates & Taxes | 360 | - |
| Sundry Charges | 160 | - |
| Plant | 240 | - |
| Bank Balance | 420 | - |
| New York Office A/c | - | 1,620 |
| | 3,360 | 3,360 |

Information:

(a) Plant was acquired from a remittance of US $ 6,000 received from USA head office and paid to the suppliers. Depreciate Plant at 60% for the year.

(b) Unsold stock of Patna branch was worth ₹ 4,20,000 on 31st March, 2016.

(c) The rates of exchange may be taken as follows:

- On 01.04.2015 @ ₹ 55 per US $
- On 31.03.2016 @ ₹ 60 per US $
- Average exchange rate for the year @ ₹58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2016 and the balance sheet as on that date of Patna branch as would appear in the books of USA head office of Heera& Co. You are informed that Patna branch account showed a debit balance of US $ 29845.35 on 31.3.2016 in USA books and there were no items pending reconciliation.

**Problems based on Accounting Standards**

**AS 4 Contingencies and Events Accruing after Balance Sheet Date**

17. (a) X Oil Ltd. closed the books of accounts on March 31, 2016 for which financial statement was finalized by the Board of Directors on September 04, 2016. During the month of December 2015, company undertook the project of laying a pipeline across the country and during May 2016 engineers realized that due to unexpected heavy rain, the total cost of the project will be inflated by ₹ 50 lakhs. How this should be provided for in the balance sheet of 2015-16 in accordance to AS 4?

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**AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies**

(b) The company finds that the inventory sheets of 31.3.2016 did not include two pages containing details of inventory worth ₹14.5 lakhs. State, how you will deal with the following matters in the accounts of Pure Ltd. for the year ended 31st March, 2017.

**AS 11 The Effects of Changes in Foreign Exchange Rates**

18. (a) Omega Ltd. purchased fixed assets costing ₹3,000 lakhs on 1.4.2016 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ₹ 40.00 and ₹ 42.50 as on 1.4.2016 and 31.3.2017 respectively. First instalment was paid on 31.12.2016.

You are required to state, how these transactions would be accounted for.

**AS 12 Accounting for Government Grants**

(b) P Limited belongs to the engineering industry. The Chief Accountant has prepared the draft accounts for the year ended 31.03.2016. You are required to advise the company on the following item from the viewpoint of finalisation of accounts, taking note of the mandatory accounting standards:

The company purchased on 01.04.2015 special purpose machinery for ₹25 lakhs. It received a Central Government Grant for 20% of the price. The machine has an effective life of 10 years.

**AS 16 Borrowing Costs**

19. (a) Rainbow Limited borrowed an amount of ₹ 150 crores on 1.4.2016 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Rainbow Ltd. capitalized ₹ 19.50 crores for the accounting period ending on 31.3.2017. Due to surplus fund out of ₹ 150 crores, income of ₹ 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

**AS 19 Leases**

(b) Sun Limited wishes to obtain a machine costing₹30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Star Ltd., for a lease rental for₹3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Suraj Limited is not sure about the treatment of these lease rentals and seeks your advise. (use annuity factor at @ 15% for 3 years as 3.36)

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**AS 20 Earnings Per Share**

20. (a) Calculate Weighted Number of Shares.

| Date | Particulars | No. of Shares | Face Value | Paid up Value |
|---|---|---|---|---|
| 1st April | Balance at beginning of year | 1,800 | ₹ 10 | ₹ 10 |
| 31st Jan. | Issue of Shares | 600 | ₹ 10 | ₹ 5 |

**AS 26 Intangible Assets**

(b) A Pharma Company spent ₹33 lakhs during the accounting year ended 31st March, 2016 on a research project to develop a drug to treat "AIDS". Experts are of the view that it may take four years to establish whether the drug will be effective or not and even if found effective it may take two to three more years to produce the medicine, which can be marketed. The company wants to treat the expenditure as deferred revenue expenditure. Comment.

**AS 29 Provisions, Contingent Liabilities and Contingent Assets**

(c) Alpha Ltd. has entered into a sale contract of ₹ 7 crores with Gamma Ltd. during 2015-16 financial year. The profit on this transaction is ₹ 1 crore. The delivery of goods to take place during the first month of 2016-17 financial year. In case of failure of Alpha Ltd. to deliver within the schedule, a compensation of ₹2 crores is to be paid to Gamma Ltd. Alpha Ltd. planned to manufacture the goods during the last month of 2015-16 financial year. As on balance sheet date (31.3.2016), the goods were not manufactured and it was unlikely that Alpha Ltd. will be in a position to meet the contractual obligation. You are required to advise Alpha Ltd. on requirement of provision for contingency in the financial statements for the year ended 31st March, 2016, in line with provisions of AS 29?

## SUGGESTED ANSWERS

**1. Realisation Account**

| | ₹ | ₹ | | ₹ | ₹ |
|---|---|---|---|---|---|
| To Assets: | | | By liabilities | | |
| Plant & Machinery A/c | | 7,97,850 | Sundry Creditors A/c | | 4,25,250 |
| Furniture A/c | | 48,487 | Joint Life Policy Reserve A/c | | 1,99,125 |
| Stock A/c | | 1,77,525 | Cash A/c: | | |
| Sundry Debtors A/c | | 4,00,500 | Joint Life Policy | | 1,74,375 |

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| | | | | | |
|---|---|---|---|---|---|
| Joint Life Policy A/c | | 1,99,125 | Commission Receivable | | 1,05,413 |
| Commission Receivable | | 1,05,413 | By L's Capital A/c: | | |
| To L's Capital A/c: | | | Plant and | | |
| Dissolution Expenses | | 13,500 | Machinery | 6,75,000 | |
| To Cash A/c: | | | Furniture, Stocks | 1,35,000 | 8,10,000 |
| Bill dishonoured | | 23,062 | By M 's Capital A/c: | | |
| To Partner's Capital Accounts: | | | Furniture and stocks | | 1,35,000 |
| (Profit on realisation) | | | | | |
| L | 41,851 | | | | |
| M | 27,900 | | | | |
| N | 13,950 | 83,701 | | | |
| | | 18,49,163 | | | 18,49,163 |

**Partners' Capital Accounts**

| | *L* | *M* | *N* | | *L* | *M* | *N* |
|---|---|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ |
| To Realisation A/c: | | | | By Balance b/d | 3,15,000 | 1,68,750 | 90,000 |
| Plant and Machinery | 6,75,000 | – | – | By Bank Overdraft A/c | 4,54,837 | – | |
| Furniture, | 1,35,000 | 1,35,000 | | By Loan from | | | |
| Stocks | | | | Mrs. L A/c | 1,12,500 | – | |
| To Cash A/c | 1,27,688 | 61,650 | 1,03,950 | By Realisation A/c: | | | |
| (Balancing figure) | | | | Dissolution Expenses | 13,500 | – | |
| | | | | Profit on realisation | 41,851 | 27,900 | 13,950 |
| | 9,37,688 | 1,96,650 | 1,03,950 | | 9,37,688 | 1,96,650 | 1,03,950 |

**Cash Account**

| | | | | |
|---|---|---|---|---|
| To | Balance b/d | 36,562 | By Realisation A/c: | |
| To | Realisation A/c: | | Bill dishonoured | 23,062 |
| | Joint Life Policy Commission | 1,74,375 | By Partners' Capital Accounts: | |
| | Receivable A/c | 1,05,413 | L | 1,27,688 |

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| | | | |
|---|---|---|---|
| | | M | 61,650 |
| | | N | 1,03,950 |
| | 3,16,350 | | 3,16,350 |

**Note:** No entry is required regarding assignment of sundry debtors to sundry creditors in full satisfaction of their claims.

**2. (i) Adjustment for raising and writing off of goodwill**

| | *Raised in old profit sharing ratio* | | *Total* | *Written off in new ratio* | *Difference* |
|---|---|---|---|---|---|
| | Bhalla & Co. | Chand& Co. | | | |
| | 3:2 | 5:3 | | | |
| | ₹ | ₹ | ₹ | ₹ | ₹ |
| Maan | 2,70,000 | --- | 2,70,000 Cr. | 2,76,000 Dr. | 6,000 Dr. |
| Hello | 1,80,000 | 1,50,000 | 3,30,000 Cr. | 3,45,000 Dr. | 15,000 Dr. |
| Proud | --- | 90,000 | 90,000 Cr. | 69,000 Dr. | 21,000 Cr. |
| | 4,50,000 | 2,40,000 | 6,90,000 | 6,90,000 | Nil |

**(ii) Balance Sheet of Chand Bhalla & Co. (New firm) as on 31.3.2016**

| *Liabilities* | ₹ | *Assets* | ₹ |
|---|---|---|---|
| Capital Accounts: | | Vehicle | 4,44,000 |
| Maan | 10,32,000 | Machinery | 6,00,000 |
| Hello | 12,90,000 | Building | 12,00,000 |
| Proud | 2,58,000 | Stock | 4,20,000 |
| Current Accounts: | | Debtors | 7,86,000 |
| Maan | 1,32,000 | Cash & Bank | 4,20,000 |
| Proud | 1,08,000 | | |
| Creditors | 10,50,000 | | |
| | 38,70,000 | | 38,70,000 |

**Working Notes:**

1. **Balance of Capital Accounts at the time of amalgamation of firms**

| | *Maan's Capital ₹* | *Hello's Capital ₹* |
|---|---|---|
| **Bhalla & Co.** Profit and loss sharing ratio 3:2 | | |
| Balance as per Balance Sheet | 9,00,000 | 6,00,000 |

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| | | |
|---|---|---|
| *Add*: Reserves | 1,80,000 | 1,20,000 |
| Revaluation profit (Building) | 1,80,000 | 1,20,000 |
| *Less*: Revaluation loss (Machinery) | (72,000) | (48,000) |
| Provision for doubtful debt | (18,000) | (12,000) |
| | 11,70,000 | 7,80,000 |

| | *Hello's Capital* | *Proud's Capital* |
|---|---|---|
| **Chand & Co.** Profit and loss sharing ratio 5:3 | ₹ | ₹ |
| Balance as per Balance sheet | 4,50,000 | 3,00,000 |
| *Add*: Reserves | 1,50,000 | 90,000 |
| *Less*: Revaluation (vehicle) | (60,000) | (36,000) |
| Provision for doubtful debts | (15,000) | (9,000) |
| | 5,25,000 | 3,45,000 |

2. **Balance of Capital Accounts in the balance sheet of the new firm as on 31.3.2016**

| | | *Maan* ₹ | *Hello* ₹ | *Proud* ₹ |
|---|---|---|---|---|
| Balance b/d: | Bhalla & Co. | 11,70,000 | 7,80,000 | -- |
| | Chand& Co. | -- | 5,25,000 | 3,45,000 |
| | | 11,70,000 | 13,05,000 | 3,45,000 |
| Adjustment for goodwill | | (6,000) | (15,000) | 21,000 |
| | | 11,64,000 | 12,90,000 | 3,66,000 |
| Total capital ₹25,80,000 (Hello's capital* i.e. ₹12,90,000 x 2) to be contributed in 4:5:1 ratio. | | 10,32,000 | 12,90,000 | 2,58,000 |
| Transfer to Current Account | | 1,32,000 | --- | 1,08,000 |

3. **Books of Arun and Varun**

**Realisation Account**

| | ₹ | ₹ | | ₹ |
|---|---|---|---|---|
| To Sundry debtors | | 1,20,000 | By Sundry creditors | 96,000 |

* Hello's Capital ₹ 12,90,000 being one-half of the total capital of the firm.

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| | | | | |
|---|---|---|---|---|
| To Bills receivable | | 20,000 | By Loan creditors | 80,000 |
| To Stock in trade | | 72,000 | By Bank overdraft | 32,000 |
| To Patents | | 16,000 | By Purchasing Company | 4,20,000 |
| To Plant and Machinery | | 32,000 | (W.N. 2) | |
| To Land and Building | | 1,20,000 | | |
| To Capital A/c (Profit) | | | | |
| Arun | 1,24,000 | | | |
| Varun | 1,24,000 | 2,48,000 | | |
| | | 6,28,000 | | 6,28,000 |

**Partners' Capital Accounts**

| | *Arun* | *Varun* | | *Arun* | *Varun* |
|---|---|---|---|---|---|
| | ₹ | ₹ | | ₹ | ₹ |
| To Shares in Purchasing Co. | 2,10,000 | 2,10,000 | By Balance b/d | 80,000 | 80,000 |
| | | | By Reserves | 6,000 | 6,000 |
| | | | By Realization A/c | 1,24,000 | 1,24,000 |
| | 2,10,000 | 2,10,000 | | 2,10,000 | 2,10,000 |

**Working Notes**

1. Goodwill = (60,000 + 72,000 + 84,000 + 12,000*)/3 x 2 Years = 1,52,000

   * Profit transferred to reserve @ ₹4,000 for 3 years.

2. **Purchase Consideration**

| | ₹ | ₹ |
|---|---|---|
| Assets taken over: | | |
| Goodwill (W.N.1) | | 1,52,000 |
| Land and Buildings | | 2,00,000 |
| Plant and Machinery | | 48,000 |
| Sundry Debtors | | 1,20,000 |
| Bills Receivable | | 20,000 |
| Stock in trade | | 72,000 |
| Patents | | 16,000 |
| | | 6,28,000 |
| *Less:* Liabilities taken over: | | |

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| | | |
|---|---|---|
| Creditors | 96,000 | |
| Loan Creditors | 80,000 | |
| Bank Overdraft | 32,000 | 2,08,000 |
| Purchase Consideration | | 4,20,000 |

**4.** Under section 27 (3) of the LLP Act, 2008 an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP;

- The Liabilities of an LLP shall be met out of the properties of the LLP;
- Under section 28 (1) a partner is not personally liable, directly or indirectly, for an obligation referred to in Section 27 (3) above, solely by reason of being a partner in the LLP;
- Section 27 (1) states that an LLP is not bound by anything done by a partner in dealing with a person, if:
  - The partner does not have the authority to act on behalf of the LLP in doing a particular act; and
  - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
- Under section 30 (1) the liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

**5.** Since the exercise price varies depending on the outcome of a performance condition which is not a market condition the effect of that performance condition (i.e. the possibility that the exercise price might be ₹40 and the possibility that the exercise price might be ₹30) is not taken into account when estimating the fair value of the stock options at the grant date. Instead, the enterprise estimates the fair value of the stock options at the grant date under each scenario and revises the transaction amount to reflect the outcome of that performance condition at the end of every year based on the information available at that point of time.

**Calculation of compensation expenses to be charged every year**

| *Year* | *Calculation* | *Compensation expenses for the period (₹)* | *Cumulative compensation expense (₹)* |
|---|---|---|---|
| 1 | 10,000 options × ₹ 16 × 1/3 | 53,333 | 53,333 |
| 2 | (10,000 options × ₹ 16 ×2/3) – ₹ 53,333 | 53,334 | 1,06,667 |
| 3 | (10,000 options × ₹ 12 × 3/3) – ₹ 1,06,667 | 13,333 | 1,20,000 |

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**6. Journal entries**

**In the books of Mukta Ltd.**

| | | | *Dr.* | *Cr.* |
|---|---|---|---|---|
| | | | | *₹ in lakhs* |
| 1 | Bank A/c | Dr. | 25,200 | |
| | To Investments A/c | | | 24,000 |
| | To Profit and Loss A/c | | | 1,200 |
| | (Being Investments sold and, profit being credited to Profit and Loss Account) | | | |
| 2 | 10% Redeemable Preference Share Capital A/c | Dr. | 20,000 | |
| | Premium payable on Redemption of Preference Shares A/c | Dr. | 2,000 | |
| | To Preference Shareholders A/c | | | 22,000 |
| | (Being amount payable on redemption of Preference shares, at a Premium of 10%) | | | |
| 3 | Securities Premium A/c | Dr. | 2,000 | |
| | To Premium payable on Redemption of Preference Shares A/c | | | 2,000 |
| | (Being Securities Premium utilised to provide Premium on Redemption of Preference Shares) | | | |
| 4 | Equity Share Capital A/c | Dr. | 16,000 | |
| | Premium payable on Buyback A/c | Dr. | 16,000 | , |
| | To Equity Share buy back A/c | | | 32,000 |
| | (Being the amount due on buy-back) | | | |
| 5 | Securities Premium A/c (6,400 – 2,000) | Dr. | 4,400 | |
| | General Reserve A/c (balancing figure) | Dr. | 11,600 | |
| | To Premium payable on Buyback A/c | | | 16,000 |
| | (Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.) | | | |
| 6 | Bank A/c | Dr. | 16,000 | |
| | To Bank Loan A/c | | | 16,000 |
| | (Being Loan taken from Bank to finance Buyback) | | | |

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| | | | | |
|---|---|---|---|---|
| 7 | Preference Shareholders A/c | Dr. | 22,000 | |
| | Equity Shares buy back A/c | Dr. | 32,000 | |
| | To Bank A/c | | | 54,000 |
| | (Being payment made to Preference Shareholders and Equity Shareholders) | | | |
| 8 | General Reserve Account | Dr. | 36,000 | |
| | To Capital Redemption Reserve Account | | | 36,000 |
| | (Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000) | | | |

**7. Journal**

| | | Dr. | Cr. |
|---|---|---|---|
| Bank A/c | Dr. | 8,00,000 | |
| To 10 % Debenture Application Account | | | 8,00,000 |
| (Being receipt of application money on 16,000 10% Debentures @ ₹ 50 per debenture) | | | |
| 10 % Debenture Applications Account | Dr. | 8,00,000 | |
| 10% Debenture Allotment Account | Dr. | 7,68,000 | |
| Discount on issue of Debentures Account | | 32,000 | |
| To 10% Debentures Account | | | 16,00,000 |
| (Being allotment of 16,000 10% Debentures of ₹100 each at a discount of ₹ 2 per debenture) | | | |
| Underwriting Commission on Issue of Debenture Account | Dr. | 16,000 | |
| To Mr. X Underwriters A/c | | | 16,000 |
| (Being underwriters @ 1% on ₹16,00,000, the nominal value of debentures underwritten) | | | |
| Mr. X Underwriters A/c | Dr. | 16,000 | |
| To 10% Debentures Account | | | 16,000 |
| (Being Allotment of 160 10% Debentures of ₹ 100 each at par to Mr. X Underwriters by way of payment of underwriting commission due to them) | | | |
| Bank A/c | Dr. | 7,68,000 | |
| To 10 % Debenture Allotment Account | | | 7,68,000 |

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| | | | |
|---|---|---|---|
| (Being receipt of allotment money on 16,000 10% Debentures @ ₹ 48 per debenture) | | | |

**Balance Sheet of Aman Ltd. as on .....**

| | | *Note No.* | ₹ |
|---|---|---|---|
| **I** | **Equity and Liabilities** | | |
| | Shareholder's funds | | **Nil** |
| | Reserve and surplus | | |
| | **Non current liabilities** | | |
| | Long term borrowings | | 16,16,000 |
| | | | 16,16,000 |
| **II** | **Assets** | | |
| | Current assets | | |
| | Cash and cash equivalents (balance at bank) | | 15,68,000 |
| | Other Non- current Assets | **1** | 48,000 |
| | | | 16,16,000 |

**Notes:**

| | | ₹ | ₹ |
|---|---|---|---|
| **1** | **Other Non- current Assets** | | |
| | Underwriting Commission on Issue of Debentures | | 32,000 |
| | Discount on Issue of Debentures | | 16,000 |
| | | | 48,000 |

**Working Notes:**

**Dr. Cash Book (Bank Columns Only) Cr.**

| | | ₹ | | | ₹ |
|---|---|---|---|---|---|
| To | 10 % Debentures Allotment Account | 8,00,000 | By | Balance c/d | 15,68,000 |
| To | 10% Debenture Allotment Account | 7,68,000 | | | |
| | | 15,68,000 | | | 15,68,000 |
| To | Balance b/d | 15,68,000 | | | |

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**12 % Debentures Account**

| | | | | | |
|---|---|---|---|---|---|
| To | Balance c/d | 16,16,000 | By | 10% Debenture Applications Account | 8,00,000 |
| | | | By | 10% Debenture Allotment Account | 7,68,000 |
| | | | By | Discount on issue of Debenture Account | 32,000 |
| | | | By | Mr. X (Underwriters) | 16,000 |
| | | 16,16,000 | | | 16,16,000 |

**8. Journal**

| | | (₹) Dr. | (₹) Cr. |
|---|---|---|---|
| 2006 Jan 1 | Bank Dr.<br>To 9% Debenture Applications& Allotment Account<br>(Being application money on 20,000 debentures @ ₹ 100 per debenture received) | 20,00,000 | 20,00,000 |
| | 9% Debentures Applications & Allotment Account Dr.<br>To 9% Debentures Account<br>(Being allotment of 20,000 9% Debentures of ₹100 each at par) | 10,00,000 | 20,00,000 |
| (i)<br>2008 Jan. 1 | 9% Debenture Account Dr.<br>Loss on Redemption of Debentures Account Dr.<br>To Bank<br>(Being redemption of 2,000 9% Debentures of ₹100 each by purchase in the open market @ ₹101 each) | 2,00,000<br>2,000 | 2,02,000 |
| " " | Profit & Loss Account/Securities Premium Account Dr.<br>To Loss on Redemption of Debentures Account<br>(Being loss on redemption of debentures being written off by transfer to Profit and Loss Account or Securities Premium Account) | 2,000 | 2,000 |
| (ii)<br>2011Jan. 1 | 9% Debentures Account Dr.<br>To Sundry Debentureholders<br>(Being Amount payable to debentureholders on redemption debentures for ₹6,00,000 at par by draw of a lot) | 6,00,000 | 6,00,000 |
| " " | Sundry Debentureholders Dr.<br>To Bank<br>(Being Payment made to sundry debentureholders for redeeming debentures of ₹6,00,000 at par) | 6,00,000 | 6,00,000 |

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| | | | |
|---|---|---|---|
| (iii) 2012Jan. 1 | Own Debentures Dr.<br>To Bank<br>(Being purchase of own debentures of the face value of ₹4,00,000 for ₹3,95,600) | 3,95,600 | <br>3,95,600 |
| 2013 " | 9% Debentures Dr.<br>To Own Debentures<br>To Profit on Cancellation of Own Debentures Account<br>(Being Cancellation of own debentures of the face value of ₹4,00,000 purchased last year for ₹3,95,600) | 4,00,000 | <br>3,95,600<br>4,400 |
| " " | Profit on Cancellation of Own Debentures Account Dr.<br>To Capital Reserve Account<br>(Being transfer of profit on cancellation of own debentures to capital reserve) | 4,400 | 4,400 |
| (iv) 2016Jan. | 9% Debentures Account Dr.<br>Premium on Redemption of Debentures Account Dr.<br>To Sundry Debentureholders<br>(Being amount payable to holders of debentures of the face value of ₹ 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors) | 8,00,000<br>16,000 | <br><br>8,16,000 |
| " " | Sundry Debentureholders Dr.<br>To Bank Account<br>(Being payment to sundry debentureholders) | 8,16,000 | <br>8,16,000 |
| " " | Securities Premium Account Dr.<br>To Premium on Redemption of Debentures Account<br>(Being utilisation of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures) | 16,000 | <br>16,000 |

**9. M/s R Ltd.**

**Balance Sheet as at 1.4.2016**

| | | Particulars | Notes | ₹ in'000 |
|---|---|---|---|---|
| | | **Equity and Liabilities** | | |
| **1** | | **Shareholders' funds** | | |
| | a | Share capital | 1 | 6,55,980 |
| | b | Reserves and Surplus | 2 | 2,77,990 |
| **2** | | **Non-current liabilities** | | |
| | a | Long-term borrowings | 3 | 80,000 |

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| | | | | |
|---|---|---|---|---|
| **3** | | **Current liabilities** | | |
| | a | Trade Payables | 4 | 80,000 |
| | b | Short term provision | 5 | 22,000 |
| | | **Total** | | 11,15,970 |
| | | **Assets** | | |
| **1** | | **Non-current assets** | | |
| | a | Fixed assets | | |
| | | Tangible assets | 6 | 5,60,000 |
| | b | Non-current investments | 7 | 1,30,000 |
| **2** | | **Current assets** | | |
| | a | Inventory | 8 | 1,52,000 |
| | b | Trade receivables | 9 | 1,44,000 |
| | c | Cash and cash equivalents | 10 | 1,29,970 |
| | | **Total** | | 11,15,970 |

**Notes to accounts**

| | | ₹in'000 |
|---|---|---|
| **1.** | **Share Capital** | |
| | Equity share capital | |
| | 55,598 Equity shares of ₹10 each, fully paid up (W.N.2) | 5,55,980 |
| | Preference share capital | |
| | 9% Preference share capital (Share of ₹100 each) (W.N.2) | 1,00,000 |
| | | 6,55,980 |
| **2.** | **Reserves and Surplus** | |
| | Securities premium (W.N.2) | 2,77,990 |
| | Investment allowance reserve (₹10,000+ ₹4,000) | 14,000 |
| | Amalgamation adjustment reserve | (14,000) |
| | | 2,77,990 |
| **3.** | **Long-term borrowings** | |
| | Secured | |
| | 10% Debentures (50% of ₹1,60,000) | 80,000 |

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| | | |
|---|---|---|
| **4.** | **Trade Payables** (₹50,000+ ₹30,000) | 80,000 |
| **5.** | **Short term provisions** | |
| | Provision for tax (₹14,000+ ₹8,000) | 22,000 |
| **6.** | **Tangible assets** | |
| | Building (₹1,32,000+₹1,05,000) | 2,37,000 |
| | Plant and machinery (₹1,76,000+₹1,47,000) | 3,23,000 |
| | | 5,60,000 |
| **7.** | **Non – current Investments (₹80,000+ ₹50,000)** | 1,30,000 |
| **8.** | **Inventory** | |
| | Stock (₹ 72,000+ ₹ 80,000) | 1,52,000 |
| **9.** | **Trade receivables** | |
| | Trade receivables (90% of (₹90,000+ ₹70,000) | 1,44,000 |
| **10.** | **Cash and cash equivalents** | |
| | Cash and Bank (₹ 80,000+ ₹ 50,000 – ₹ 30) | 1,29,970 |

**Working Notes:**

1. **Calculation of value of equity shares issued to transferor companies**

| | | *P Ltd.* | | *Q Ltd.* |
|---|---|---|---|---|
| | | *(₹)* | | *(₹)* |
| Assets taken over: | | | | |
| Building | | 1,32,000 | | 1,05,000 |
| Plant and machinery | | 1,76,000 | | 1,47,000 |
| Investments | | 80,000 | | 50,000 |
| Inventories | | 72,000 | | 80,000 |
| Trade receivables | | 81,000 | | 63,000 |
| Cash & Bank | | 80,000 | | 50,000 |
| | | 6,21,000 | | 4,95,000 |
| *Less*: Liabilities: | | | | |
| 10% Debentures | 1,00,000 | | 60,000 | |
| Trade payables | 50,000 | | 30,000 | |
| Tax Provision | 14,000 | 1,64,000 | 8,000 | 98,000 |
| | | 4,57,000 | | 3,97,000 |

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| | | | | |
|---|---|---|---|---|
| *Less*: Preference Share Capital | | 60,000 | | 40,000 |
| | | 3,97,000 | | 3,57,000 |

2. **Number of shares issued to equity shareholders, debenture holders and preference shareholders**

| | *P Ltd.* | *Q Ltd.* | *Total* |
|---|---|---|---|
| Equity shares issued @ ₹15 per share (including ₹5 premium) | | | |
| ₹3,97,000/15 | 26,466 shares[1] | | |
| ₹3,57,000/15 | | 23,800shares | 50,266 shares |
| Equity share capital @ ₹10 | ₹2,64,660 | ₹2,38,000 | ₹5,02,660 |
| Securities premium @ ₹5 | ₹1,32,330 | ₹1,19,000 | ₹2,51,330 |
| | ₹3,96,990 | ₹3,57,000 | ₹7,53,990 |
| *50% of Debentures are converted into equity shares @ ₹15 per share* | | | |
| 1,00,000/2 = 50,000/15 | 3,332 shares[2] | | |
| 60,000/2 = 30,000/15 | | 2,000 shares | 5,332 shares |
| Equity share capital @ ₹10 | ₹33,320 | ₹20,000 | ₹53,320 |

| | | | |
|---|---|---|---|
| Security premium@ ₹5 | ₹16,660 | ₹10,000 | ₹26,660 |
| | ₹49,980 | ₹30,000 | ₹ 79,980 |
| *9% Preference share capital issued* | ₹60,000 | ₹40,000 | ₹1,00,000 |

**10. (a) Journal Entries in the books of M/s. Lion Ltd.**

| | *Particulars* | *Debit (₹ in lakhs)* | *Credit (₹ in lakhs)* |
|---|---|---|---|
| (i) | 8% Preference share capital A/c (₹100 Dr. each) | 400 | |

[1] Cash paid for fraction of shares = ₹ 3,97,000 less ₹ 3,96,990 = ₹10

[2] Cash paid for fraction of shares = ₹ 50,000 less ₹ 49,980 = ₹20

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| | | | | |
|---|---|---|---|---|
| | To 8% Preference share capital A/c (₹ 80 each) | | | 320 |
| | To Capital Reduction A/c | | | 80 |
| | (Being the preference shares of ₹100 each reduced to ₹80 each as per the approved scheme) | | | |
| (ii) | Equity share capital A/c (₹10 each) | Dr. | 1,000 | |
| | To Equity share capital A/c (₹ 2 each) | | | 200 |
| | To Capital Reduction A/c | | | 800 |
| | (Being the equity shares of ₹10 each reduced to ₹2 each) | | | |
| (iii) | Capital Reduction A/c | Dr. | 32 | |
| | To Equity share capital A/c (₹2 each) | | | 32 |
| | (Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of ₹2 each) | | | |
| (iv) | 6% Debentures A/c | Dr. | 300 | |
| | To Freehold property A/c | | | 300 |
| | (Being claim of Debenture holders settled in part by transfer of freehold property) | | | |
| (v) | Accrued debenture interest A/c | Dr. | 24 | |
| | To Bank A/c | | | 24 |
| | (Being accrued debenture interest paid) | | | |
| (vi) | Freehold property A/c | Dr. | 150 | |
| | To Capital Reduction A/c | | | 150 |
| | (Being appreciation in the value of freehold property) | | | |
| (vii) | Bank A/c | Dr. | 250 | |
| | To Investments A/c | | | 200 |
| | To Capital Reduction A/c | | | 50 |
| | (Being investment sold at profit) | | | |
| (viii) | Director's loan A/c | Dr. | 300 | |
| | To Equity share capital A/c (₹ 2 each) | | | 90 |
| | To Capital Reduction A/c | | | 210 |

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| | | | | |
|---|---|---|---|---|
| | (Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹2 each) | | | |
| (ix) | Capital Reduction A/c | Dr. | 972 | |
| | To Profit and loss A/c | | | 522 |
| | To Trade receivables A/c (450x 40%) | | | 180 |
| | To Inventories-in-trade A/c (300x 80%) | | | 240 |
| | To Bank A/c (600 x 5%) | | | 30 |
| | (Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account) | | | |
| (x) | Capital Reduction A/c | | 286 | |
| | To Capital reserve A/c | | | 286 |
| | (Being balance transferred to capital reserve account as per the scheme) | | | |

**(b) Capital Reduction Account**

**Dr.** **Cr.**

| | | *(₹ in lakhs)* | | | *(₹ in lakhs)* |
|---|---|---|---|---|---|
| To | Equity Share Capital | 32 | By | Preference Share Capital | 80 |
| To | Trade receivables | 180 | By | Equity Share Capital | 800 |
| To | Finished Goods | 240 | By | Freehold Property | 150 |
| To | Profit & Loss A/c | 522 | By | Bank | 50 |
| To | Bank A/c | 30 | By | Director's Loan | 210 |
| To | Capital Reserve | 286 | | | |
| | | 1,290 | | | 1,290 |

**(c) Notes to Balance Sheet**

| | | *(₹ in lakhs)* | *(₹ in lakhs)* |
|---|---|---|---|
| 1. | Share Capital | | |
| | Authorised: | | |
| | 200 lakhs Equity shares of ₹ 2 each | | 400 |

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| | | | |
|---|---|---|---|
| | 8 lakhs 8% Preference shares of ₹ 80 each | | 640 |
| | | | 1,040 |
| | Issued: | | |
| | 161 lakhs equity shares of ₹2 each | | 322 |
| | 4 lakhs Preference Shares of ₹80 each | | 320 |
| | | | 642 |
| 2. | Tangible Assets | | |
| | Freehold Property | 550 | |
| | *Less*: Utilized to pay Debenture holders | (300) | |
| | | 250 | |
| | *Add*: Appreciation | 150 | 400 |
| | Plant and Machinery | | 200 |
| | | | 600 |

**11. OM Ltd.**

**Liquidator's Final Statement of Account**

| *Receipts* | *Value Realised* | | *Payments* ₹ | *Payments* ₹ |
|---|---|---|---|---|
| *Assets Realised:* | | | | |
| Cash at Bank | 2,40,000 | Liquidator's Remuneration (W.N. 1) | | 1,02,224 |
| Sundry Debtors | 8,00,000 | Liquidation Expenses | | 1,17,736 |
| Inventory | 6,40,000 | Debentureholders: | | |
| Plant and Machinery | 20,00,000 | 14% Debentures | 9,20,000 | |
| Patent | 2,00,000 | Interest Accrued (W.N. 2) | 1,61,000 | 10,81,000 |
| Surplus from Securities | | Creditors: | | |
| (W.N. 3) | 5,20,000 | Preferential | 1,20,000 | |
| | | Unsecured | 3,51,200 | 4,71,200 |
| | | Preference Shareholders: | | |
| | | Preference Share Capital | 16,00,000 | |
| | | Arrears of Dividend | 2,24,000 | 18,24,000 |

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| | | | | |
|---|---|---|---|---|
| | | Equity Shareholders (W.N.4) : | | |
| | | ₹25.12 per share on 32,000 shares | | 8,03,840 |
| | 44,00,000 | | | 44,00,000 |

**Working Notes:**

| | | ₹ |
|---|---|---|
| 1 | Liquidator's remuneration: | |
| | 2% on assets realised (2% of ₹47,60,000) | 95,200 |
| | 2% on payments to unsecured creditors (2% on ₹3,51,200) | 7,024 |
| | | 1,02,224 |
| 2 | Interest accrued on 14% Debentures: | |
| | Interest accrued as on 31.3.2016 | 1,28,800 |
| | Interest accrued upto the date of payment i.e. 30.6.2016 | 32,200 |
| | | 1,61,000 |
| 3 | Surplus from Securities: | |
| | Amount realised from Land and Buildings (₹3,20,000 + ₹8,00,000) | 11,20,000 |
| | *Less:* Mortgage Loan | (6,00,000) |
| | | 5,20,000 |

| | | |
|---|---|---|
| 4 | Amount payable to Equity Shareholders: | |
| | Equity share capital (paid up) | 19,20,000 |
| | *Less:* Amount available for equity shareholders | (8,03,840) |
| | Loss to be borne by equity shareholders | 11,16,160 |
| | Loss per equity share (₹11,16,160/32,000) | 34.88 |
| | Amount payable to equity shareholders for each equity share (60-34.88) | 25.12 |

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**12. FORM B– RA**

**Name of the Insurer: Xeta Insurance Company Limited**

**Registration No. and Date of registration with IRDA: ……..**

**Revenue Account for the year ended 31st March, 2016**

| *Particulars* | *Schedule* | *Amount (₹)* |
|---|---|---|
| Premium earned (net) | 1 | 29,81,000 |
| Profit on sale of investment | | 30,000 |
| Others | | – |
| Interest and dividend (gross) | | 1,50,000 |
| Total (A) | | 31,61,000 |
| Claims incurred (Net) | 2 | 20,25,000 |
| Commission | 3 | 3,50,000 |
| Operating expenses related to insurance | 4 | 7,50,000 |
| Total (B) | | 31,25,000 |
| Operating profit from insurance business (A) – (B) | | 36,000 |

**Schedule –1 Premium earned (net)**

| | ₹ |
|---|---|
| Premium received | 33,60,000 |
| *Less*: Premium on reinsurance ceded | (2,25,000) |
| Net Premium | 31,35,000 |
| *Less:* Adjustment for change in Reserve for Unexpired risk (as per W.N.) | (1,54,000) |
| Total premium earned | 29,81,000 |

**Schedule -2 Claims incurred (net)**

| | ₹ |
|---|---|
| Claims paid | 19,20,000 |
| *Add:* Expenses regarding claims | 90,000 |
| | 20,10,000 |
| *Less*: Re-insurance recoveries | (60,000) |
| | 19,50,000 |
| *Add:* Claims outstanding as on 31st March, 2016 | 2,70,000 |
| | 22,20,000 |

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| | |
|---|---|
| *Less:* Claims outstanding as on 31st March, 2015 | (1,95,000) |
| | 20,25,000 |

**Schedule -3 Commission**

| | ₹ |
|---|---|
| Commission paid | 3,50,000 |

**Schedule-4 Operating expenses related to Insurance Business**

| | ₹ |
|---|---|
| Expenses of management (₹4,20,000 – ₹45,000) | 3,75,000 |

**Working Note:**

**Calculation for change in Reserve for Unexpired risk:**

| | | ₹ |
|---|---|---|
| Reserve for Unexpired Risk as on 31st March, 2016 | 12,54,000 | |
| Additional Reserve as on 31st March, 2016 | 7,00,000 | 19,54,000 |
| *Less:* Reserve for Unexpired Risk as on 31st March, 2015 | 15,00,000 | |
| Additional Reserve as on 31st March, 2015 | 3,00,000 | (18,00,000) |
| | | 1,54,000 |

**13.** The amount of rebate on bills discounted as on 31st March, 2016 the period which has not been expired upto that day will be calculated as follows:

| | |
|---|---|
| Discount on ₹5,60,000 for 62 days @ 10% | 9,512 |
| Discount on ₹17,44,000 for 69 days @ 10% | 32,969 |
| Discount on ₹11,28,000 for 82 days @ 10% | 25,341 |
| Discount on ₹16,24,000 for 92 days @ 10% | 40,934 |
| Discount on ₹12,00,000 for 96 days @ 10% | 31,562 |
| Total | 1,40,318 |

**Note:** The due date of the bills discounted is included in the number of days above.

**The amount of discount to be credited to the profit and loss account will be:**

| | ₹ |
|---|---|
| Transfer from rebate on bills discounted as on 31.03. 2015 | 1,36,518 |
| *Add:* Discount received during the year | 3,40,312 |
| | 4,76,830 |

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| | |
|---|---|
| *Less:* Rebate on bills discounted as on 31.03. 2016 (as above) | (1,40,318) |
| | 3,36,512 |

**Journal Entries**

| | | ₹ | ₹ |
|---|---|---|---|
| Rebate on bills discounted A/c | Dr. | 1,36,518 | |
| To Discount on bills A/c | | | 1,36,518 |
| (Transfer of opening unexpired discount on 31.03. 2015) | | | |
| Discount on bills A/c | Dr. | 1,40,318 | |
| To Rebate on bills discounted A/c | | | 1,40,318 |
| (Unexpired discount on 31.03. 2016 taken into account) | | | |
| Discount on Bills A/c | Dr. | 3,36,512 | |
| To P & L A/c | | | 3,36,512 |
| (Discount earned in the year, transferred to P&L A/c) | | | |

**14. Departmental Trading Account**

**for the year ending on 31st March, 2016**

| *Particulars* | ₹ | *Particulars* | ₹ |
|---|---|---|---|
| To Opening stock | 2,40,000 | By Sales | 9,60,000 |
| To Purchases | 5,40,000 | By Shortage | 3,600 |
| To Gross Profit c/d | 2,70,450 | By Closing stock (₹ 1,20,540 – ₹33,690) | 86,850 |
| | 10,50,450 | | 10,50,450 |

**Memorandum Departmental Stock Account (At Selling Price)**

| *Particulars* | ₹ | *Particulars* | ₹ |
|---|---|---|---|
| To Balance b/d (₹2,40,000 + ₹96,000) | 3,36,000 | By Profit & Loss A/c (Cost of Shortage) | 3,600 |
| To Purchases | 5,40,000 | By Memorandum Departmental Mark-up A/c (Loading on Shortage) | 1,440 |
| To Memorandum Departmental Mark-up | 2,16,000 | By Mark-up A/c (Mark Down in Current Purchases) | 4,200 |

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| | | | | | |
|---|---|---|---|---|---|
| | A/c (Mark-up on Purchases) | | | | |
| | | | By | Debtors A/c (Sales) | 9,60,000 |
| | | | By | Memorandum Departmental Mark-up A/c (Mark-Down on Opening Stock) | 2,220 |
| | | | By | Balance c/d | 1,20,540 |
| | | 10,92,000 | | | 10,92,000 |

**Memorandum Departmental Mark up Account**

| | | ₹ | | ₹ |
|---|---|---|---|---|
| To | Memorandum Departmental Stock A/c (₹3,600 x 40/100) | 1,440 | By Balance b/d (₹3,36,000 x 40/140) | 96,000 |
| To | Memorandum Departmental Stock A/c | 4,200 | By Memorandum Departmental Stock A/c | 2,16,000 |
| To | Memorandum Departmental Stock A/c | 2,220 | (₹ 5,40,000 x 40/100) | |
| To | Gross Profit transferred to Profit & Loss A/c | 2,70,450 | | |
| To | Balance c/d (₹ 1,20,540 + ₹ 1,050)* x 40/140 – (₹ 1,050) | 33,690 | | |
| | | 3,12,000 | | 3,12,000 |

*[₹4200 x 12,000/48,000 = 1,050]

**Working Notes:**

| (i) | | Calculation of Cost of sales | ₹ |
|---|---|---|---|
| | A | Sales as per Books | 9,60,000 |
| | B | *Add:* Mark-down in opening stock (given) | 2,220 |
| | C | *Add:* Mark down in sales out of current purchases (₹4,200 x 36,000/48,000) | 3,150 |
| | D | Value of sales if there was no mark down (A+B+C) | 9,65,370 |
| | E | *Less:* Gross profit (40/140 of ₹9,65,370) subject to Mark down (₹ 2,220 + ₹ 3,150) | 2,75,820 |
| | F | Cost of sales (D-E) | 6,89,550 |

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| | | | |
|---|---|---|---|
| (ii) | | Calculation of Closing Stock | ₹ |
| | A | Opening stock | 2,40,000 |
| | | Add: Purchases | 5,40,000 |
| | | Less Cost of sales | 6,89,550 |
| | D | Less: Shortage | 3,600 |
| | E | Closing Stock (A+B-C-D) | 86,850 |

**15. Pune Branch Trading and Profit and Loss Account**

| *Particulars* | | ₹ | *Particulars* | | ₹ |
|---|---|---|---|---|---|
| To | Opening Stock (including ₹10,000 from Goa Branch) | 40,000 | By | Sales (including ₹20,000 to Goa Branch) | 2,80,000 |
| To | Purchases | 2,00,000 | By | Closing Stock (including ₹5,000 from Goa Branch) | 30,000 |
| To | Chargeable Expenses | 15,000 | | | |
| To | Gross Profit c/d (before making adjustment for unrealised profit) | 55,000 | | | |
| | | 3,10,000 | | | 3,10,000 |
| To | Stock Reserve (for unrealised profit in Closing Stock lying at Goa Branch). (₹4,000 x 25/100) | 1,000 | By | Gross Profit b/d | 55,000 |
| To | Office & Adm. Expenses | 13,250 | By | Stock Reserve (for unrealised profit in Opening Stock lying at Goa Branch) (₹ 17,000 x 25/100) | 4,250 |
| To | Selling & Distribution Expenses | 15,000 | | | |
| | To Net Profit | 30,000 | | | |
| | | 59,250 | | | 59,250 |

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**Goa Branch Trading and Profit and Loss Account**

**For the year ending on .....**

| *Particulars* | ₹ | *Particulars* | ₹ |
|---|---|---|---|
| To Opening Stock (including ₹17,000 from Pune Branch) | 30,000 | By Sales (including ₹15,000 to Pune Branch) | 2,95,625 |
| To Purchases | 2,50,000 | By Closing Stock (including ₹ 4,000 from Goa Branch) | 43,500 |
| To Chargeable Expenses | 27,500 | | |
| To Gross Profit c/d (before making adjustment for unrealised profit) | 31,625 | | |
| | 3,39,125 | | 3,39,125 |
| To Stock Reserve (for unrealised profit on Closing Stock lying at Pune Branch). (₹5,000 x 20/100) | 1,000 | By Gross Profit b/d | 31,625 |
| To Office & Adm. Expenses | 7,000 | By Stock Reserve (for unrealised profit on Opening Stock at Pune Branch) (₹10,000 x 20/100) | 2,000 |
| To Selling & Distribution Expenses | 10,000 | | |
| To Net Profit | 15,625 | | |
| | 33,625 | | 33,625 |

**16. M/s Heera & Co.**

**Patna Branch Trial Balance in (US $)**

**as on 31st March, 2016**

| | *Conversion rate per US $ (₹)* | *Dr. US $* | *Cr. US $* |
|---|---|---|---|
| Stock on 1.4.15 | 55 | 5,454.55 | – |

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| | | | |
|---|---|---|---|
| Purchases and sales | 58 | 13,793.10 | 20,689.66 |
| Sundry debtors and creditors | 60 | 6,666.67 | 5,000.00 |
| Bills of exchange | 60 | 2,000.00 | 4,000.00 |
| Wages and salaries | 58 | 9,655.17 | – |
| Rent, rates and taxes | 58 | 6,206.90 | – |
| Sundry charges | 58 | 2,758.62 | – |
| Plant | – | 6,000.00 | – |
| Bank balance | 60 | 7,000.00 | – |
| USA office A/c | – | – | 29,845.35 |
| | | 59,535.01 | 59,535.01 |

**Trading and Profit & Loss Account**

**for the year ended 31st March, 2016**

| | *US $* | | *US $* |
|---|---|---|---|
| To Opening Stock | 5,454.55 | By Sales | 20,689.66 |
| To Purchases | 13,793.10 | By Closing stock | 7,000.00 |
| To Wages and salaries | 9,655.17 | (₹ 4,20,000/60) | |
| | | By Gross Loss c/d | 1,213.16 |
| | 28,902.82 | | 28,902.82 |
| To Gross Loss b/d | 1,213.16 | By Net Loss | 13,778.68 |
| To Rent, rates and taxes | 6,206.90 | | |
| To Sundry charges | 2,758.62 | | |
| To Depreciation on Plant (US $ 6,000 × 0.6) | 3,600.00 | | |
| | 13,778.68 | | 13,778.68 |

**Balance Sheet of Patna Branch**
**as on 31st March, 2016**

| *Liabilities* | | *US $* | *Assets* | *US $* | *US $* |
|---|---|---|---|---|---|
| USA Office A/c | 29,845.35 | | Plant | 6,000.00 | |
| *Less:* Net Loss | (13,778.68) | 16,066.67 | *Less:* Depreciation | (3,600.00) | 2,400.00 |
| Sundry creditors | | 5,000.00 | Closing stock | | 7,000.00 |
| Bills payable | | 4,000.00 | Sundry debtors | | 6,666.67 |

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| | | | | | |
|---|---|---|---|---|---|
| | | | Bills receivable | | 2,000.00 |
| | | | Bank balance | | 7,000.00 |
| | | 25,066.67 | | | 25,066.67 |

**17. (a)** This event occurred after March 31, 2016 but before September 04, 2016 is an event occurring after the balance sheet date. But this event is not affecting financial position on the date of balance sheet therefore it should be disclosed in the directors' report.

**(b)** Paragraph 4 of Accounting Standard 5 on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods".

Rectification of error in inventory valuation is a prior period item vide Para 4 of AS 5. ₹14.5 lakhs must be added to the opening inventory of 1.4.2016. It is also necessary to show ₹ 14.5 lakhs as a prior period adjustment in the Profit and loss Account below the line. Separate disclosure of this item as a prior period item is required as per Para 15 of AS 5.

**18. (a)** As per para 13 of AS 11 (Revised 2003) 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or expenses in the period in which they arise. Thus exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are recognized as income or expense.

Calculation of Exchange Difference:

$$\text{Foreign currency loan} = \frac{₹\ 3,000 \text{ lakhs}}{₹\ 40} = 75 \text{ lakhs US Dollars}$$

Exchange difference = 75 lakhs US Dollars $\times$ (42.50 – 40.00) = ₹187.50 lakhs

(including exchange loss on payment of first instalment)

Therefore, entire loss due to exchange differences amounting ₹ 187.50 lakhs should be charged to profit and loss account for the year.

**Note:** The above answer has been given on the basis that the company has not exercised the option of capitalization available under para 46 of AS 11. The answer will change if the company exercises the option of capitalization.

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**(b)** AS 12 'Accounting for Government Grants' regards two methods of presentation, of grants related to specific fixed assets, in financial statements as acceptable alternatives. Under the first method, the grant of ₹ 5,00,000 can be shown as a deduction from the gross book value of the machinery in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge.

Under the second method, it can be treated as deferred income which should be recognised in the profit and loss statement over the useful life of 10 years in the proportions in which depreciation on machinery will be charged. The deferred income pending its apportionment to profit and loss account should be disclosed in the balance sheet with a suitable description e.g., 'Deferred government grants' to be shown after 'Reserves and Surplus' but before 'Secured Loans'.

The following should also be disclosed:

(i) the accounting policy adopted for government grants, including the methods of presentation in the financial statements;

(ii) the nature and extent of government grants recognised in the financial statement of ₹ 5 lakhs is required to be credited to the profit and loss statement of the current year.

**19. (a)** Para 10 of AS 16 'Borrowing Costs' states "To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings." The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Rainbow Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2016-2017 should be calculated as follows:

| | *₹ in crores* |
|---|---|
| Actual interest for 2016-2017 (11% of ₹ 150 crores) | 16.50 |
| *Less:* Income on temporary investment from specific borrowings | (3.50) |
| Borrowing costs to be capitalized during year 2016-2017 | 13.00 |

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**(b)** As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment• amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

| | |
|---|---|
| Annuity Factor (Year 1 to Year 5) | 3.36 (approx.) |
| Present Value of minimum lease payments (₹3 lakhs each year) | ₹10.08 lakhs (approx.) |

Thus present value of minimum lease payments is ₹10.08 lakhs and the fair value of the machine is ₹ 30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for five years. Therefore, lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

**20. (a)** Assuming that partly paid shares are entitled to participate in the dividend to the extent of amount paid, number of partly paid equity shares would be taken as 300 for the purpose of calculation of earnings per share.

Computation of weighted average would be as follows:

(1,800 x 12/12) + (300 x 2/12) = 1,850 shares.

In case of a bonus issue or a share split, equity shares are issued to existing shareholders for no additional consideration. Therefore, the number of equity shares outstanding is increased without an increase in resources. The number of equity shares outstanding before the event is adjusted for the proportionate change in the number of equity shares outstanding as if the event had occurred at the beginning of the earliest period reported.

**(b)** As per para 41 of AS 26 'Intangible Assets', no intangible asset arising from research (or from the research phase of an internal project) should be recognized. Expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred. Thus the company cannot treat the expenditure

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• In calculating the present value of the of minimum lease payments, the discount rate is the interest rate implicit in the lease.

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as deferred revenue expenditure. The entire amount of ₹33 lakhs spent on research project should be charged as an expense in the year ended31st March, 2016.

**(c)** AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognized. Alpha Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Alpha Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Alpha Ltd. should provide for the contingency amounting ₹ 2 crores as per AS 29.

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