PAPER – 5 : ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2014 EXAMINATION

A. Applicable for May, 2014 examination

(i) Revision in the Criteria for classifying Level II Non-Corporate Entities

Due to recent changes in the enhancement of tax audit limit, the Council of the ICAI has recently decided to change the 1st criteria of Level II Non-Corporate Entities i.e. determination of SME on turnover basis from ₹ 40 lakhs to ₹ 1 Crore vide announcement "Revision in the Criteria for classifying Level II Non-Corporate Entities" issued by ICAI on 7th March, 2013. This revision is applicable with effect from the accounting year commencing on or after April 1, 2012.

(ii) Presentation of Foreign Currency Monetary Item Translation Difference Account (FCMITDA)

In the Revised Schedule VI format, no line item has been specified for the presentation of "Foreign Currency Monetary Item Translation Difference Account (FCMITDA)". Therefore, the Council of the Institute at its 324th meeting held on March 24-26, 2013 at New Delhi, decided that debit or credit balance in FCMITDA should be shown on the "Equity and Liabilities" side of the balance sheet under the head 'Reserves and Surplus' as a separate line item.

(iii) Review of the Prudential Guidelines on Restructuring of Advances by Banks/Financial Institutions

Reserve Bank of India has reviewed the prudential guidelines on restructuring of advances by banks/ financial institutions vide circular no. DBOD.No.BP.BC.63/21.04.048/2012-13 applicable for all scheduled commercial banks excluding RRBs dated November 26, 2012. As per paragraph 81 of the Monetary Policy Statement 2013-14 announced on May 3, 2013, 'Prudential guidelines on restructuring of advances by banks / financial institutions' have been revised taking into account the recommendations of the Working Group (Chairman: Shri B. Mahapatra) vide notification no. DBOD.BP.BC.No. /21.04.132/2012-13 dated January 31, 2013. The Major decisions are as follows:

i) To enhance the provisioning requirement for restructured accounts classified as standard advances from the existing 2.00 per cent to 2.75 per cent in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract a provision of 2.75 per cent for the period covering moratorium and two years thereafter; and that

ii) Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2.75 per cent in the first year from the date of upgradation instead of the existing 2.00 per cent.

In accordance with the above, loans to projects under implementation, when restructured due to change in the date of commencement of commercial operations (DCCO) beyond the original DCCO as envisaged at the time of financial closure and classified as standard advances would attract higher provisioning at 2.75 per cent as against the present requirement of 2.00 per cent as per the details given below:

Infrastructure projects

Particulars	Provisioning Requirement
If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond two years and upto four years or three years from the original DCCO, as the case may be, depending upon the reasons for such delay (Ref.: DBOD.No.BP.BC.85 /21.04.048/2009-10 dated March 31, 2010)	2.75 per cent – From the date of such restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.

Non-infrastructure projects

Particulars	Provisioning Requirement
If the revised DCCO is within six months from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond six months and upto one year from the original DCCO prescribed at the time of financial closure (Ref.: DBOD.No.BP.BC.85 /21.04.048/2009-10 dated March 31, 2010)	2.75 per cent – From the date of such restructuring for 2 years.

All other extant guidelines on Income Recognition, Asset Classification and Provisioning pertaining to advances will remain unchanged.

(iv) Clarification on Debenture Redemption Reserve (DRR)

Ministry of Corporate Affairs vide Circular no. 04/2013 dated 11 February, 2013 has clarified the adequacy of DRR for various institutions/companies as follows:

All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as	Nil

privately placed debentures	
Other Financial Institutions and NBFCs registered with the RBI under Section 45-IA of the RBI (Amendment) Act, 1997	
if debentures issued through public issue	25%
if privately placed debentures	Nil
Other companies including manufacturing and infrastructure companies (including listed and unlisted companies)	25%

Every company required to create/maintain DRR shall before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year.

(v) Amendment to para 46 of Accounting Standard 11 of the Companies (Accounting Standards) Rules, 2006

Ministry of Corporate Affairs vide its notification number G.S.R 913(E), dated 29th December, 2011, has amended the para 46 of AS 11 of the Companies (Accounting Standards) Amendment Rules, 2011. Through this notification, the MCA has extended the option (for the enterprises) to capitalize the exchange differences arising on reporting of long term foreign currency monetary items till 31st March, 2020 instead of 31st March, 2012.

(vi) Insertion of para 46A in Accounting Standard 11 of the Companies (Accounting Standards) Rules, 2006

Ministry of Corporate Affairs vide its notification number G.S.R 914(E), dated 29th December, 2011, inserted under-mentioned para 46A in AS 11 of the Companies (Accounting Standards) Rules, 2006, now known as Companies (Accounting Standards) (Second Amendment) Rules, 2011.

"46A. (1) In respect of accounting periods commencing on or after the 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 and at the option of any other enterprise (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital assets, can be added to or deducted from the cost of the assets and shall be depreciated over the balance life of the assets, and in other cases, can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long term assets or liability, by recognition as income or expense in each of such periods, with the exception of exchange differences dealt with in accordance with the provisions of paragraph 15 of the said rules.

(2) To exercise the option referred to in sub-paragraph (1), an asset or liability shall be designated as long-term foreign currency monetary item, if the asset or liability is expressed in a foreign currency and has a term of twelve months or more at the date of origination of the asset or the liability.

Provided that the option exercised by the enterprise shall disclose the fact of such option and of the amount remaining to be amortized in the financial statements of the period in which such option is exercised and in every subsequent period so long as any exchange difference remains unamortized."

Note: The principal regulations were published in the Gazette of India Extraordinary, Part II, Section 3, Sub Section (i) vide G.S.R 739(E), dated the 7th December, 2006 and amended vide notification number G.S.R. 212(E), dated the 27th March, 2008 and subsequently amended by No. G.S.R. 225(E) dated 31st March, 2009 and No. G.S.R. 378(E), dated 11th May, 2011.

(vii) Clarification on Para 46A of notification number G.S.R. 914(E) dated 29.12.2011 on Accounting Standard 11 relating to "The effects of Changes in Foreign Exchange Rates"

The Ministry has received several representations from industry associations that Para 6 of AS 11 and Para 4(e) of AS 16 are posing problems in proper implementation of Para 46A of AS 11 inserted vide notification 914(E) dated 29.12.2011. In order to resolve the problems faced by industry, MCA had further clarified vide Circular No. 25/2012 dated 09.08.2012 that Para 6 of AS 11 and Para 4(e) of the AS 16 shall not apply to a company which is applying clause Para 46A of AS 11.

(viii) Section 24 of the Banking Regulation Act, 1949 Maintenance of Statutory Liquidity Ratio (SLR) - Local Area Banks

In exercise of the powers conferred by sub-section (2A) of Section 24 of Banking Regulation Act, 1949 (10 of 1949) as amended from time to time, RBI vide notification DBOD.No.Ret.BC.48 /12.02.001/2012-13 dated September 28, 2012 has decided that Statutory Liquidity Ratio for Local Area Banks be reduced from 25 per cent to 23 per cent of their Net Demand and Time Liabilities (NDTL) with effect from the fortnight beginning August 11, 2012.

(ix) 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.

(x) Buy Back of Securities (Amendment) Regulations, 2013

In exercise of the powers conferred under section 30 of the Securities and Exchange Board of India Act, 1992 read with clause (f) of sub-section (2) of Section 77A of the Companies Act, 1956 SEBI made Securities and Exchange Board of India (Buy-back of Securities) (Amendment) Regulations, 2013 to amend the Securities and Exchange Board of India (Buy back of Securities) Regulations, 1998. The important provisions of the new regulations are: (i) No offer of buy-back for fifteen per cent or more of the paid up capital and free reserves of the company shall be made from the open market. (ii)A company shall not make any offer of buy-back within a period of one year reckoned from the date of closure of the preceding offer of buy-back, if any. (iii)The company shall ensure that at least fifty per cent of the amount earmarked for buy-back is utilized for buying-back shares or other specified securities.

Source: http://www.sebi.gov.in/sebiweb/home/list/1/3/0/0/Regulations

B. Not applicable for May, 2014 examination

Ind ASs issued by the Ministry of Corporate Affairs

The MCA has hosted on its website 35 converged Indian Accounting Standards (Ind AS) without announcing the applicability date. These are the standards which are being converged by eliminating the differences of the Indian Accounting Standards vis-à-vis IFRS. These standards shall be applied for all companies falling under Phase I to Phase III as prescribed under the roadmap issued by the core group. **These Ind ASs are not applicable for the students appearing in May, 2014 Examination.**

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Partnership Accounts

Dissolution of a partnership firm

1. A, V, R and S are partners in a firm sharing profits and losses in the ratio of 4 : 1 : 2 : 3. The following is their Balance Sheet as at 31st March, 2014 :

Liabilities		₹	Assets	₹
Sundry Creditors		6,00,000	Sundry Debtors	7,00,000
Capital A/cs :			Less: Doubtful Debts	(1,00,000)
A	14,00,000			6,00,000

S	6,00,000	20,00,000	Cash in hand	2,80,000
			Stocks	4,00,000
			Other Assets	6,20,000
			Capital A/cs:	
			V	4,00,000
			R	3,00,000
		26,00,000		26,00,000

On 31st March, 2014, the firm is dissolved and the following points are agreed upon:

(a) A is to takeover sundry debtors at 80% of book value.

(b) S is to takeover the stocks at 95% of the value.

(c) R is to discharge sundry creditors.

(d) Other assets realise ₹ 6,00,000 and the expenses of realisation come to ₹ 60,000.

(e) V is found insolvent and ₹ 43,800 is realised from his estate.

You are required to prepare Realisation Account and Capital Accounts of the partners. Show also the Cash A/c. The loss arising out of capital deficiency may be distributed following the decision in Garner vs Murray.

Amalgamation of firms

2. Ketan Kumar acquires the business of M/s Shiv and Nath on payment of ₹ 1,20,000 on 31st March 2013. The book value of assets and liabilities taken over by him as follows:

	₹
Debtors	52,500
Furniture	4,500
Stock	69,000
Creditors	15,000

There was no change between 1st January, 2013 and 31st March, 2013 in the book value of the assets and liabilities not taken over. The same set of books has been continued after the acquisition and no entries of the acquisition have been passed except for the payment of ₹ 1,20,000 made by Ketan Kumar.

From the following balance sheet and trial balance prepare Business Purchase Account, Profit and Loss Account for the year ended 31st December, 2013 and Balance Sheet at that date.

Balance Sheet as at December, 2012

Liabilities		₹	Assets	₹
Capital Accounts			Furniture	4,500

Shiv	45,000		Investments	7,500
Nath	30,000	75,000	Insurance Policy	3,000
Bank Loan		27,000	Stock	60,000
Creditors		18,000	Debtors	45,000
		1,20,000		1,20,000

On 31st December 2013 the trial balance is:

	₹	₹
Stock	60,000	
Furniture	4,500	
Investment	7,500	
Insurance Policy	3,000	
Business Purchase Account	1,20,000	
Bank Loan		27,000
Capital :		
Shiv		45,000
Nath		30,000
Ketan		45,000
Bank	4,500	
Debtors	72,000	
Creditors		22,500
Purchases	4,80,000	
Expenses	18,000	
Sales		6,00,000
	7,69,500	7,69,500
Closing Stock ₹ 75,000		

Conversion of partnership firm

3. Aman, Baal and Chand share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2014 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	10,000
Aman	70,000	Land	20,000

Baal	80,000	Buildings		1,10,000
Chand	10,000	Machinery		50,000
General Reserve	18,000	Motor Car		28,000
Investment Fluctuation Fund	4,000	Furniture		12,000
Chand's Loan	33,000	Investments		18,000
Mrs. Aman's loan	15,000	Loose tools		7,000
Creditors	96,000	Stock		18,000
Bills Payable	14,000	Bills receivable		20,000
Bank overdraft	60,000	Debtors:	40,000	
		Less: Provision	2,000	38,000
		Cash		1,000
		Chand's current A/c		56,000
		Profit and Loss A/c		12,000
	4,00,000			4,00,000

The partners decide to convert their firm into a Joint Stock Company. For this purpose ABC Ltd. was formed with an authorized capital of ₹ 10,00,000 divided into ₹ 100 equity Shares. The business of the firm was sold to the company as at the date of balance sheet given above on the following terms:

(i) Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.

(ii) Liabilities for bills payable and bank overdraft are to be taken over by the company.

(iii) The purchase price is settled at ₹ 1,95,500 payable as to ₹ 75,500 in cash and the balance in company's fully paid shares of ₹ 100 each.

(iv) The remaining assets and liabilities of the firm are directly disposed of by the firm as per details given below:

Investments are taken over by Aman for ₹ 13,000; debtors realize in all ₹ 20,000; Motor Car, furniture and loose tools fetch ₹ 24,000, ₹ 4,000, and ₹ 1,000 respectively. Aman agrees to pay his wife's loan. The creditors were paid ₹ 94,000 in final settlement of their claims. The realization expenses amount to ₹ 500.

(v) The equity share received from the vendor company are to be divided among the partners in profit-sharing ratio.

You are required to prepare the necessary ledger accounts.

Sale of Partnership firm

4. M, N and O were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm 31st March, 2014 was the following:

Particulars	₹	₹
Machinery at Cost	2,00,000	
Inventory	1,37,400	
Trade receivables	1,24,000	
Trade payables		1,69,400
Capital A/c:		
M		1,36,000
N		90,000
O		46,000
Drawing A/c:		
M	50,000	
N	46,000	
O	34,000	
Depreciation on Machinery		80,000
Profit for the year ended 31st March		2,48,600
Cash at Bank	1,78,600	
	7,70,000	7,70,000

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Account at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed a MNO Private Limited Company with an Authorized Share Capital of 2,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of Partnership firm.

You are required as under:

1. Machinery is to be transferred at ₹ 1,40,000.
2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.
3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.

4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

You are required to prepare:

(a) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.

(b) Capital Accounts showing all adjustments required to dissolve the Partnership.

(c) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares.

Employee Stock Option Plans

5. Siya Ltd. provides you the following information:

No. of employees	2,500
No. of option to be granted to each employee	500
Vesting period	4 Years
No. of employees not expected to fulfill the vesting conditions other than market conditions	
1st Year	20%
2nd Year	15%
3rd Year	10%
4th Year	10%
Fair value of the option per share	₹ 5
Exercise Price	₹ 50
Exercise Period	3 Years
Face value of each share	₹ 10

At the end of third year it has been re-estimated that all vesting conditions have been fulfilled and no other further conditions are required for options to vest and 600 employees exercise their option at the end of 4th year, 800 employees exercise their option at the end of 5th year and 100 employees exercise their option at the end of 6th year. Rights of 30 employees expire unexercised at the end of the 6th year.

You are required to pass necessary journal entries for first 3 years.

Buy –Back of Shares

6. The following was the Balance Sheet of C Ltd. as on 31st March ,2014.

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital:		Fixed Assets	14,000

Equity shares of ₹ 10 each Fully Paid Up	8,000	Investments	3,000
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	2,500	Cash at Bank	1,650
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2014 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 15% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 3,150 lakhs and raised a Bank Loan amounting to ₹ 400 lakh on the Security of the Company's Plant.

You are required to

(i) pass journal entries for the above and

(ii) prepare the Company's Balance sheet immediately thereafter.

Underwriting of Shares

7. X Ltd. issued 1,20,000 Equity Shares which were underwritten as follows:

A & Co	72,000 Equity Shares
B & Co.	30,000 Equity Shares
C& Co.	18,000 Equity Shares

The above mentioned underwriters made applications for 'firm' underwritings as follows:

A & Co	9,600 Equity Shares
B & Co	12,000 Equity Shares
C& Co.	3,600 Equity Shares

The total applications excluding 'firm' underwriting, but including marked applications were for 60,000 Equity Shares.

The marked Applications were as under:

A & Co	12,000 Equity Shares
B & Co.	15,000 Equity Shares
C& Co.	6,000 Equity Shares

The underwriting contracts provide that underwriters be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten. You are required to show the allocation of liability. Workings will be considered as a part of your answer.

Redemption of Debentures

8. On 1st January, 2004 Shyam Ltd. allotted 10,000 9% Debentures of ₹ 100 each at par, the total amount having been received along with applications.

   (i) On 1st January, 2006 the Company purchased in the open market 1,000 of its own debentures @ ₹ 101 each and cancelled them immediately.

   (ii) On 1st January, 2009 the company redeemed at par debentures for ₹ 3,00,000 by draw of a lot.

   (iii) On 1st January, 2010 the company purchased debentures of the face value of ₹ 2,00,000 for 1,97,800 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, 2014 when Securities Premium Account in the company's ledger showed a balance of ₹ 30,000.

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

Amalgamation of companies

9. Hari Ltd. and Narayan Ltd. are to be amalgamated into Hari Narayan Ltd. The new company is to take over all the assets and liabilities of the amalgamating companies.

   Assets and Liabilities of Hari Ltd. are to be taken over at book values in exchange of shares in Hari Narayan Ltd. Three shares in the new company are to be issued at a premium of 20% for every two shares of Hari Ltd.

   The approved scheme for Narayan Ltd. is as follows:

   1. 10% Preference shareholders are to be allowed two 15% Preference shares of ₹ 100 each in Hari Narayan Ltd. for three Preference shares held in Narayan Ltd.
   2. The Debentures of Narayan Ltd. are to be paid off at 5% discount by the issue of debentures of Hari Narayan Ltd. at par.
   3. The Equity shareholders of Narayan Ltd. are to be allowed as many shares at par in Hari Narayan Ltd. as will cover the balance on their account and for this purpose,

plant and machinery is to be valued less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.

The summarised Balance Sheets of the two companies prior to amalgamation are as follows:

Liabilities	*Hari Ltd.*	*Narayan Ltd.*	*Assets*	*Hari Ltd.*	*Narayan Ltd.*
	₹	₹		₹	₹
Equity Shares of ₹ 10 each	6,40,000	12,50,000	Plant and Machinery	12,80,000	20,00,000
10% Preference Shares of ₹ 100 each	-	7,50,000	Trade receivables	1,52,000	1,25,000
General Reserves	8,80,000	-	Inventory	1,00,000	1,50,000
Secured Debentures	-	5,00,000	Cash and Bank Balance	1,08,000	1,00,000
Trade payables	1,20,000	2,25,000	Profit and Loss Account	-	3,50,000
	16,40,000	27,25,000		16,40,000	27,25,000

You are required to show the Journal Entries and the Balance Sheet of the amalgamated company immediately after amalgamation.

Internal Reconstruction of a Company

10. The Balance Sheet of Moon Limited as on 31st March, 2013 was as follows:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
2,50,000 Equity Shares of ₹ 10 each fully paid	25,00,000	Goodwill Patent	5,00,000 2,50,000
9% 10,000 Preference shares of ₹ 100 each fully paid	10,00,000	Land and Building Plant and Machinery	15,00,000 5,00,000
10% First debentures	3,00,000	Furniture and Fixtures	1,00,000
10% Second debentures	5,00,000	Computers	1,50,000
Debentures interest outstanding	80,000	Trade Investment	2,50,000
Trade payables	2,50,000	Trade receivables	2,50,000
Directors' loan	50,000	Inventory	5,00,000
Bank O/D	50,000	Profit and Loss Account (Loss)	8,00,000
Outstanding liabilities	20,000		
Provision for Tax	50,000		
	48,00,000		48,00,000

Note: Preference dividend is in arrears for last three years.

A holds 10% first debentures for ₹ 2,00,000 and 10% second debentures for ₹ 3,00,000. He is also creditors for ₹ 50,000. B holds 10% first debentures for ₹ 1,00,000 and 10% second debentures for ₹ 2,00,000 and is also creditors for ₹ 25,000.

The following scheme of reconstruction has been agreed upon and duly approved by the court.

(i) All the equity shares be converted into fully paid equity shares of ₹ 5 each.

(ii) The preference shares be reduced to ₹ 50 each and the preference shareholders agree to forego their arrears of preference dividends in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. 'A' is to cancel ₹ 3,00,000 of his total debt including interest on debentures and to pay ₹ 50,000 to the company and to receive new 12% debentures for the Balance amount.

(iv) Mr. 'B' is to cancel ₹ 1,50,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.

(v) Trade creditors (other than A and B) agreed to forego 50% of their claim.

(vi) Directors to accept settlement of their loans as to 60% thereof by allotment of equity shares and balance being waived.

(vii) There were capital commitments totalling ₹ 1,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(viii) The Directors refund ₹ 55,000 of the fees previously received by them.

(ix) Reconstruction expenses paid ₹ 5,000.

(x) The taxation liability of the company is settled at ₹ 40,000 and the same is paid immediately.

(xi) The assets are revalued as under:

	₹
Land and Building	14,00,000
Plant and Machinery	2,00,000
Inventory	3,50,000
Trade receivables	1,50,000
Computers	90,000
Furniture and Fixtures	50,000
Trade Investment	2,00,000

Pass Journal entries for all the above mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit & Loss Account. Prepare Bank Account and working of allocation of Interest on Debentures between A and B.

Liquidation of a company

11. The following particulars relate to V Limited Company which has gone into voluntary liquidation.

Share capital issued:

5,000 Preference shares of ₹ 100 each fully paid up.

25,000 Equity shares of ₹ 10 each fully paid up.

15,000 Equity shares of ₹ 10 each, ₹ 8 paid up.

Assets realized ₹ 10,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

	₹
Preferential creditors	25,000
Unsecured creditors	9,00,000
Partly secured creditors (Assets realized ₹ 1,60,000)	1,75,000
Debentureholders having floating charge on all assets of the company	3,00,000
Expenses of liquidation	5,000

A call of ₹ 2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 500 shares.

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

Financial Statements of Insurance Companies

12. From the following balances extracted from the books of Priya General Insurance Company Limited as on 31.3.2013, you are required to prepare Revenue Accounts in respect of Fire and marine Insurance business for the year ended 31.3.2013 and a Profit and Loss Account for the same period :

	₹		₹
Directors' Fee	40,000	Interest received	9,500
Dividend received	50,000	Fixed Assets (1.4.2012)	45,000
Provision for Taxation (as on 1.4. 2012)	42,500	Income-tax paid during the year	30,000

	Fire	Marine
	₹	₹
Outstanding Claims on 1.4.2012	14,000	3,500
Claims paid	50,000	40,000
Reserve for Unexpired Risk on 1.4.2012	1,00,000	70,000
Premiums Received	2,25,000	1,65,000
Agent's Commission	20,000	10,000
Expenses of Management	30,000	22,500
Re-insurance Premium (Dr.)	12,500	7,500

The following additional points are also to be taken into account:

(a) Depreciation on Fixed Assets to be provided at 10% p.a.

(b) Interest accrued on investments ₹ 5,000.

(c) Closing provision for taxation on 31.3.2013 to be maintained at ₹ 62,069.

(d) Claims outstanding on 31.3.2013 were Fire Insurance ₹ 5,000; Marine Insurance ₹ 7,500.

(e) Premium outstanding on 31.3.2013 were Fire Insurance ₹ 15,000; Marine Insurance ₹ 10,000.

(f) Reserve for unexpired risk to be maintained at 50% and 100% of net premium in respect of Fire and Marine Insurance respectively.

(g) Expenses of management due on 31.3.2013 were ₹ 5,000 for Fire Insurance and ₹ 2,500 in respect of marine Insurance.

Financial Statements of Banking Companies

13. The following facts have been taken out from the records of City Bank Ltd. as on 31st March, 2013:

	₹	₹
Rebate on bill discounted (not due on March 31st, 2012)		91,600
Discount received		4,05,000
Bill discounted	24,50,000	

An analysis of the bills discounted is as follows:

	Amount	*Due date*	*Rate of discount*
	₹	*2013*	
(i)	7,50,000	April 8	12%

(ii)	3,00,000	May 5	14%
(iii)	4,40,000	June 12	14%
(iv)	9,60,000	July 15	15%

You are required to:-

(i) Calculate Rebate on Bill Discounted as on 31st March, 2013.

(ii) The amount of discount to be credited to the profit and loss account.

Financial Statements of Electricity Company

14. The trial balance of Jyoti Electric Supply Ltd. for the year ended 31st March, 2013 is as below:

		(₹ '000)
Particulars	**Dr.**	**Cr.**
Share Capital :		
7,50,000 Equity Shares of ₹ 10 each		75,00
Patents and trademark	2,50	
14% Debentures		30,00
11% Term Loan		17,50
Land	15,50	
Building	42,50	
Power Plant	75,00	
Electrical Instruments	7,00	
Capital reserve		9,00
Contingency reserves		15,00
Transformers	20,50	
Net revenue account		8,50
Inventories	14,50	
Trade receivables	8,00	
Contingency reserve investments	15,00	
Bank balance	3,00	
Public lamps	4,00	
Depreciation fund		30,00
Trade payables		7,50
Proposed dividend		15,00
	20,750	20,750

Prepare Balance Sheet of Jyoti Electric Supply Ltd as on 31st March, 2013 as per Revised Schedule VI.

Departmental Accounts

15. M/s P and Co., had four departments A,B,C and D. Each department being managed by manager whose commission was 10% of the respective departmental profit, subject to a minimum of ₹ 6,000 in each case. Interdepartmental transfers took place at a 'loaded' price as follows:

From Department	A to Department	B 10% above cost
From Department	A to Department	D 20% above cost
From Department	C to Department	D 20% above cost
From Department	C to Department	B 20% above cost

For the year ending on 31st March, 2014 the firm had already prepared and closed the departmental Trading and Profit and Loss Account. Subsequently, it was discovered that the closing stocks of departments had included interdepartmentally transferred goods at loaded price instead of cost price. From the following information prepare a statement recomputing the departmental profit or loss:

	Dept. A ₹	*Dept. B* ₹	*Dept. C* ₹	*Dept D* ₹
Final Profit (Loss)	(38,000)	50,400	72,000	1,08,000
Inter departmental transfers included at loaded price in the departmental stock		70,000	-	4,800
		(₹ 22,000 from Dept. A and ₹ 48,000 from Dept. C		(₹ 3,600 from Dept. C and ₹ 1,200 from Dept. A)

Branch Accounting

16. From the following particulars relating to Pune branch for the year ending December 31, 2013, prepare Branch Account in the books of Head office.

		₹
Stock at Branch on January1, 2013		10,000
Branch Debtors on January 1, 2013		4,000
Branch Debtors on Dec. 31, 2013		4,900
Petty cash at branch on January 1, 2013		500
Furniture at branch on January 1, 2013		2000
Prepaid fire insurance premium on January 1, 2013		150

Salaries outstanding at branch on January 1, 2013		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received form debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Insurance up to March 31, 2014	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2013		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing ₹ 1,200 were destroyed on account of fire and a sum of ₹ 1,000 was received from the Insurance Company.

AS 5

17. (a) X Limited was making provisions up to 31-3-2012 for non-moving inventories based on no issues for the last 12 months. Based on a technical evaluation the company wants to make provisions during the year 31-03-2013 in the following manner:

Total value of inventory ₹ 3 crores.

Provision required based on 12 months ₹ 8 lakhs.

Provision required based on technical evaluation ₹ 7.50 lakhs.

Does this amount to change in accounting policy?

Can the company change the method of provision?

AS 11

(b) Aman Ltd. borrowed US $ 5,00,000 on 31-12-2012 which will be repaid (settled) as on 30-6-2013. Aman Ltd. prepares its financial statements ending on 31-3-2013. Rate of exchange between reporting currency (Rupee) and foreign currency (US $) on different dates are as under:

31-12-2012	1 US $ = ₹ 44.00
31-3-2013	1 US $ = ₹ 44.50
30-6-2013	1 US $ = ₹ 44.75

Calculate borrowings in reporting currency to be recognised in the books on above mentioned dates & also show journal entries for the same.

AS 12

18. (a) Viva Ltd. received a specific grant of ₹ 30 lakhs for acquiring the plant of ₹ 150 lakhs during 2010-11 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2013-14, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 21 lakhs and written down value of plant was ₹ 105 lakhs.

(i) What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2013-14 in profit and loss account?

(ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2010-11 assuming plant account showed the balance of ₹ 84 lakhs as on 1.4.2013?

AS-16

(b) A company capitalizes interest cost of holding investments and adds to cost of investment every year, thereby understating interest cost in profit and loss account. Comment on the accounting treatment done by the company in context of the relevant AS.

AS 19

19. (a) WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipments costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%. You are required to compute the amount of the annual lease

payment and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

AS 20

(b)

No. of equity shares outstanding	30,00,000
Basic earnings per share	₹ 5.00
No. of 12% convertible debentures of ₹ 100 each	50,000
Each debenture is convertible into 10 equity shares.	
Tax Rate	30%

Compute Diluted Earnings per Share. Working note should form part of the answer.

AS 26

20. (a) K. International Ltd. is developing a new production process. During the financial year ending 31st March, 2012, the total expenditure incurred was ₹ 50 lakhs. This process met the criteria for recognition as an intangible asset on 1st December, 2011. Expenditure incurred till this date was ₹ 22 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2013 was ₹ 80 lakhs. As at 31st March, 2013, the recoverable amount of know-how embodied in the process is estimated to be ₹ 72 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to calculate:

(i) Amount to be charged to Profit and Loss A/c for the year ending 31st March, 2012 and carrying value of intangible as on that date.

(ii) Amount to be charged to Profit and Loss A/c and carrying value of intangible as on 31st March, 2013.

Ignore depreciation.

AS 29

(b) EXOX Ltd. is in the process of finalizing its accounts for the year ended 31st March, 2013. The company seeks your advice on the following:

The Company's sales tax assessment for assessment year 2010-11 has been completed on 14th February, 2013 with a demand of ₹ 2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of 2.10 crore.

SUGGESTED ANSWERS/HINTS

1. **Realisation A/c**

	₹		₹
To Sundry Debtors	7,00,000	By Sundry Creditors	6,00,000
To Stock	4,00,000	By Provision for Doubtful Debts	1,00,000
To Other assets	6,20,000	By A's Capital A/c(Debtors)	5,60,000
To R's Capital A/c (Creditors)	6,00,000	By S's Capital A/c(stock)	3,80,000
To Cash		By Cash (Other assets)	6,00,000
Expenses on realization	60,000	By A's Capital A/c 56,000	
		By V's Capital A/c 14,000	
		By R's Capital A/c 28,000	
		By S's Capital A/c 42,000	1,40,000
		(Loss on realisation)	
	23,80,000		23,80,000

Partners Capital A/cs

	A	V	R	S		A	V	R	S
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/f		4,00,000	3,00,000		By Balance b/f	14,00,000	–	–	6,00,000
To Realisation (Debtors)	5,60,000	–	–	–	By Realisation (Creditors)	–	–	6,00,000	–
To Realisation (Stock)	–	–	–	3,80,000	By Balance c/d	–	4,14,000	–	–
To Realisation (loss)	56,000	14,000	28,000	42,000					
To Balance c/d	7,84,000	–	2,72,000	1,78,000					
	14,00,000	4,14,000	6,00,000	6,00,000		14,00,000	4,14,000	6,00,000	6,00,000
To Balance b/d	–	4,14,000	–	–	By Balance b/d	7,84,000	–	2,72,000	1,78,000
To V's A/c	2,59,140	–	–	1,11,060	By Cash	–	43,800		
To Cash	5,24,860	–	2,72,000	66,940	By A	–	2,59,140		
					By S	–	1,11,060	–	–
	7,84,000	4,14,000	2,72,000	1,78,000		7,84,000	4,14,000	2,72,000	1,78,000

Cash A/c

	₹		₹	₹
To Balance b/d	2,80,000	By Realisation A/c (expenses)		60,000
To Realisation A/c	6,00,000	By Capital A/c		
To V's Capital A/c	43,800	A	5,24,860	
		R	2,72,000	
		S	66,940	8,63,800
	9,23,800			9,23,800

Note:

1. Since creditors are taken over by R as per Balance Sheet figures, a direct entry for the same in R's Capital A/c is also correct.
2. A takes over Debtors at 80% of ₹ 7,00,000 i.e. ₹ 5,60,000.
3. V's deficiency will be borne by A and S in the ratio of 7 : 3 i.e. on opening capitals of ₹ 14,00,000 and ₹ 6,00,000. R will not bear any portion of the loss since at the time of dissolution he had a debit balance in his capital account.

2. Business Purchase Account

2013	₹	*2013*	₹
To Balance b/d	1,20,000	By Bank Loan	27,000
To Investments	7,500	By Shiv's Capital A/c	45,000
To Insurance Policy	3,000	By Nath's Capital A/c	30,000
		By Goodwill	9,000
		By Profit & Loss A/c	19,500
		(Balancing figure, profit upto 31st March, 2013)	
	1,30,500		1,30,500

Profit & Loss Account of Ketan for the year ended 31st December, 2013

	₹		₹
To Opening Stock	60,000	By Sales	6,00,000
To Purchases	4,80,000	By Closing Stock	75,000
To Expenses	18,000		
To Business Purchase (Profit upto 31st March)	19,500		

To Net Profit Ketan's Capital A/c	97,500		
	6,75,000		6,75,000

Balance Sheet of Ketan as on 31st December, 2013

Liabilities	₹	*Assets*	₹
Ketan's Capital A/c 45,000		Goodwill	9,000
Add : Profit 97,500	1,42,500	Furniture	4,500
Sundry Creditors	22,500	Stock in trade	75,000
		Sundry Debtors	72,000
		Cash at Bank	4,500
	1,65,000		1,65,000

Working Notes :

(1) Goodwill

	₹
Value of Assets taken over	
Stock	69,000
Debtors	52,500
Furniture	4,500
	1,26,000
Less : Creditors	(15,000)
Net assets	1,11,000
Goodwill (Balancing figure)	9,000
Purchase Consideration	1,20,000

(2) Increase in net assets upto 31st March 2013 :

	as on 1st January ₹	*as on 31st March* ₹
Debtors	45,000	52,500
Stock	60,000	69,000
Furniture	4,500	4,500
	1,09,500	1,26,000

Less : Creditors	(18,000)	(15,000)
	91,500	1,11,000
Profit, equal to net increase	19,500	–
	1,11,000	1,11,000

3. Realisation Account

Particulars	₹	₹	Particulars	₹	₹
To Goodwill		10,000	By provision to doubtful Debts		2,000
To land		20,000	By Trade creditors		96,000
To Buildings		1,10,000	By Bills Payable		14,000
To Machinery		50,000	By Bank overdraft		60,000
To Motor Car		28,000	By Mrs. Aman's loan		15,000
To Furniture		12,000	By ABC Ltd. (Purchase price)		1,95,500
To Investments		18,000	By Aman's Capital A/c (Investme		13,000
To Loose tools		7,000	By Cash A/c:		
To Stock		18,000	Debtors	20,000	
To Bill receivable		20,000	Motor Car	24,000	
To Debtors		40,000	Furniture	4,000	
To Aman's Capital A/c (Mrs. Aman's Loan)		15,000	Loose tools	1,000	49,000
To Cash A/c:					
Creditors	94,000				
Realisation expenses	500	94,500			
To Profit on Realisation t/f to:					
Aman's Capital A/c	1,000				
Baal's Capital A/c	667				
Chand's Capital A/c	333	2,000			
		4,44,500			4,44,500

ABC Ltd. Account

Particulars	₹	Particulars	₹
To Realisation A/c	1,95,500	By Cash A/c	75,500
		By Shares in ABC Ltd.	1,20,000
	1,95,500		1,95,500

Partners' Capital Accounts

Particulars	*Aman* ₹	*Baal* ₹	*Chand* ₹	*Particulars*	*Aman* ₹	*Baal* ₹	*Chand* ₹
To Profit and Loss A/c	6,000	4,000	2,000	By Balance b/d	70,000	80,000	10,000
To Realisation A/c	13,000	-	-	By Chand's Loan A/c	-	-	33,000
To Chand's Current A/c	-	-	56,000	By General reserve	9,000	6,000	3,000
To shares in ABC Ltd.	60,000	40,000	20,000	By Investment Fluctuation Fund	2,000	1,333	667
To Cash A/c	18,000	44,000	-	By Realization A/c	1,000	667	333
				By Realisation A/c (Mrs. Aman's loan A/c)	15,000	-	-
				By Cash A/c	-		31,000
	97,000	88,000	78,000		97,000	88,000	78,000

Chand's Current Account

Particulars	₹	Particulars	₹
To Balance b/d	56,000	By Chand's Capital A/c-transfer	56,000
	56,000		56,000

Shares in ABC Ltd. Account

Particulars	₹	Particulars	₹
To ABC Ltd. Account	1,20,000	By Aman's Capital A/c	60,000
		By Baal's Capital A/c	40,000
		By Chand's Capital A/c	20,000
	1,20,000		1,20,000

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	1,000	By Realisation A/c (Liabilities and expenses)	94,500
To ABC Ltd.	75,500	By Aman's Capital A/c	18,000
To Realisation A/c (sale of assets)	49,000	By Baal's Capital A/c	44,000
To Chand's Capital A/c	31,000		-
	1,56,500		1,56,500

Note : Investment Fluctuation Fund Account may be transferred to Realisation Account.

4. (a) Number of Shares to be issued to Partners

	₹
Assets: Machinery ₹ 1,40,000 + Inventory ₹ 1,37,400 +Trade Receivable ₹1,24,000 + Bank ₹ 1,00,000	5,01,400
Less: Liabilities taken over	(1,69,400)
Net Assets taken over (Purchase Consideration)	3,32,000

Classes of Shares to be issued :	M	N	O	Total
10% Preference Shares of ₹ 10 each (to retain rights as to Interest on Capital)	1,36,000	90,000	46,000	2,72,000
Balance in Equity Shares of ₹ 10 each (3,32,000 -2,72,000) (issued in profit sharing ratio)	30,000	18,000	12,000	60,000
	1,66,000	1,08,000	58,000	3,32,000

(b) Partners' Capital Account

Particulars	M	N	O	Particulars	M	N	O
To Drawings	50,000	46,000	34,000	By balance b/d	1,36,000	90,000	46,000
To 10% Preference share capital	1,36,000	90,000	46,000	By Interest on Capital	13,600	9,000	4,600
To Equity Shares	30,000	18,000	12,000	By profit for the year 5:3:2 (W.N. 1)	1,10,700	66,420	44,280
To Bank – Additional drawings (W.N. 2)	54,300	17,420	6,880	By Machinery* A/c	10,000	6,000	4,000
Total	2,70,300	1,71,420	98,880		2,70,300	1,71,420	98,880

* Gain on Transfer of Machinery = ₹ 1,40,000 – (₹ 2,00,000-₹ 80,000) = ₹ 20,000 in 5:3:2 ratio.

(c) Balance sheet of MNO Ltd. as on 31st March, 2014 (after Takeover of Firm)

		Note no.	₹
I	Equity and Liabilities:		
	(1) Shareholders Funds		
	Share Capital	1	3,32,000
	(2) Current Liabilities		
	Trade Payables		1,69,400
	Total		5,01,400

II	Assets		
	(1) Non-Current Assets		
	Fixed Assets		
	Tangible Assets- Machinery		1,40,000
	(2) Current Assets:		
	(a) Inventories		1,37,400
	(b) Trade Receivables		1,24,000
	(c) Cash and Cash Equivalents		1,00,000
	Total		5,01,400

Notes to Accounts

	Particulars	₹
1.	Shares capital	
	Authorised shares capital	20,00,000
	Issued, Subscribed & paid up	
	6,000 Equity Shares of ₹ 10 each	60,000
	27,200 10% Preference Shares capital of ₹ 10 each	2,72,000
	(All above shares issued for consideration other than cash, in takeover of partnership firm)	3,32,000

Working Note:

1. Profit & Loss Appropriation Account for the year ended 31st March

Particulars	₹	₹	Particulars	₹
To Interest on Capital:			By Net Profit	2,48,600
M [₹ 1,36,000 x 10%]	13,600		(given)	
N [₹ 90,000 x 10%]	9,000			
O [₹ 46,000 x 10%]	4,600	27,200		
To Profits transferred to Capital				
M	1,10,700			
N	66,420			
O	44,280	2,21,400		
Total		2,48,600		2,48,600

2. Statement showing Additional Drawings in Cash

(a) Funds available for Drawings

	Total Drawing of Partners (given)	1,30,000
Add:	Further Funds available for Drawings (1,78,600-1,00,000)	78,600
		2,08,600
Less:	Interest on Capital	(27,200)
	Amount available for Additional Drawings	1,81,400

(b) Ascertainment of Additional Drawings

Particulars	M	N	O
As per above statement ₹ 1,81,400(in profit sharing ratio)	90,700	54,420	36,280
Add: Interest	13,600	9,000	4,600
	1,04,300	63,420	40,880
Less: Already drawn	(50,000)	(46,000)	(34,000)
Additional Drawings	54,300	17,420	6,880

5. Journal Entries in the books of Siya ltd.

Particulars		*Dr. (₹)*	*Cr. (₹)*
At the end of 1 year			
Employees Compensation Expense A/c To Employee Stock Options Outstanding A/c (Being the compensation expenses recognized in respect of the ESOP)	Dr.	8,60,625	8,60,625
Profit and Loss A/c To Employee Compensation Expense A/c (Being Expenses of the year transferred to P & L A/c)	Dr	8,60,625	8,60,625
At the end of Year 2			
Employees Compensation Expense A/c To Employee Stock Options Outstanding A/c (Being expense in respect of ESOP recognized for the year 2)	Dr.	8,60,625	8,60,625
Profit and Loss A/c To Employee Compensation Expense A/c (Being Expenses of the year transferred to P & L A/c)	Dr	8,60,625	8,60,625

At the end of Year 3			
Employees Compensation Expense A/c To Employee Stock Options Outstanding A/c (Being expense in respect of ESOP recognized for the year 3)	Dr.	21,03,750	21,03,750
Profit and Loss A/c To Employee Compensation Expense A/c (Being Expenses of the year transferred to P & L A/c)	Dr	21,03,750	21,03,750

Working Note:

A. No. of Employees expected to take options = 2,500 x .80 x .85 x .90 x .90 = 1377

B. No. of Options to be granted to each employee = 500

C. Fair Value of each option = ₹ 5

D. Total Fair Value of Options expected to vest (A x B x C) = ₹ 34,42,500

E. Amount of Fair Value of Options to be recognized as an expense 1st year (34,42,500/4) = ₹ 8,60,625

2nd Year (34,42,500 x (2/4)- 8,60,625) – ₹ 8,60,625 = ₹ 8,60,625

3rd Year [(1530 employees x 500 options x ₹ 5) - (8,60,625+8,60,625)] = ₹ 21,03,750

Since vesting period has been revised in 3rd year all the remaining liabilities in respect of employees stock option plan has been recognized at the end of 3rd year and data for the 4th year has been ignored.

6. (i) Journal Entries in the books of C Ltd. (₹ in lakhs)

	Particulars			
1	Bank A/c To Investments A/c To Profit and Loss A/c (Being investment sold on profit for the purpose of buy-back)	Dr.	3,150	3,000 150
2	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being redemption of preference share capital at premium of 10%)	Dr. Dr.	2,500 250	2,750

3	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr	250	 250
4	Equity Share Capital A/c Premium on buyback To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	Dr. Dr.	1,200 1,200	 2,400
5	Securities Premium A/c (800-250) General Reserve A/c To Premium on Buyback A/c (Being premium on buyback provided first out of securities premium and the balance out of general reserves.)	Dr	550 650	 1,200
6	Bank A/c To Bank Loan A/c (Being loan taken from bank to finance buyback and redemption of shares)		400	 400
7	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)		2,750 2,400	 5,150
8	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)		3,700	 3,700

(ii) Balance Sheet of C Ltd. (after Redemption and Buyback) (₹ Lakhs)

	Particulars	*Note No*	*Amount*
	EQUITY AND LIABILITIES		₹
(I)	Shareholders' Funds:		
	(a) Share Capital	1	6,800
	(b) Reserves and Surplus	2	6,800
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	5,400

(3)	**Current Liabilities:**		
	(a) Trade payables		2,300
	(b) Short Term Provisions		1,000
	Total		22,300
(II)	ASSETS		
(1)	Non-Current Assets		
	Fixed Assets		14,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		50
	(b) Other Current Assets		8,250
			22,300

Notes to Accounts

		₹ in Lakhs		
1.	**Share Capital**			
	680 lakh Equity Shares of ₹ 10 each Fully Paid up (120 lakh Equity Shares bought back)			6,800
2.	**Reserves and Surplus**			
	General Reserve	6,000		
	Less: Adjustment for premium paid on buy back	(650)		
	Less: Transfer to CRR	(3,700)	1,650	
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	3,700	4,700	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	(550)	-	
	Profit & Loss A/c	300		
	Add: Profit on sale of investment	150	450	6,800
3.	**Long-term borrowings**			
	Secured			
	9 % Debentures		5,000	
	Term Loans – From Banks		400	5,400

Working Note

Bank Account

Receipts	Amount	Payments	Amount
	(₹ Lakhs)		(₹ Lakhs)
To balance b/d	1,650	By Preference Shareholders A/c	2,750
To Investment A/c (sale Proceeds)	3,150	By Equity Shareholders A/c	2,400
To Bank Loan A/c (Loan received)	400	By Balance c/d (Balancing figure)	50
	5,200		5,200

7. Computation of liabilities of underwriters (No. of shares):

	A & Co.	B & Co.	C & Co.	Total
Gross liability	72,000	30,000	18,000	1,20,000
Less: Marked applications (excluding firm underwriting)	(12,000)	(15,000)	(6,000)	(33,000)
	60,000	15,000	12,000	87,000
Less: Unmarked Applications*(Ratio 72:30:18)	(16,200)	(6,750)	(4,050)	(27,000)
	43,800	8,250	7,950	60,000
Less: Firm underwriting	(9,600)	(12,000)	(3,600)	(25,200)
	34,200	(3,750)	4,350	34,800
Credit for excess of B & Co. (ratio 72:18)	(3,000)	3,750	(750)	
Net liability (excluding firm underwriting)	31,200	-	3,600	
Add: Firm underwriting	9,600	12,000	3,600	
Total liability (No. of shares)	40,800	12,000	7,200	

Working Note:

* Total Applications	60,000	Shares
Less: Marked Applications	33,000	Shares
Unmarked applications	27,000	Shares

8. Journal

		(₹) Dr.	(₹) Cr.
2004 1 Jan	Bank Dr. To 9% Debenture Applications & Allotment Account (Being application money on 10,000 debentures @ ₹ 100 per debenture received)	10,00,000	10,00,000

	9% Debentures Applications & Allotment Account Dr. To 9% Debentures Account (Being allotment of 10,000 9% Debentures of ₹ 100 each at par)	10,00,000	 10,00,000
(i) 1 2006 Jan.	9% Debenture Account Dr. Loss on Redemption of Debentures Account Dr. To Bank (Being redemption of 1,000 9% Debentures of ₹ 100 each by purchase in the open market @ ₹ 101 each)	1,00,000 1,000	 1,01,000
" "	Profit & Loss Account/Securities Premium Account Dr. To Loss on Redemption of Debentures Account (Being loss on redemption of debentures being written off by transfer to Profit and Loss Account or Securities Premium Account)	1,000	 1,000
(ii) 1 2009 Jan.	9% Debentures Account Dr. To Sundry Debentureholders (Being Amount payable to debentureholders on redemption debentures for ₹ 3,00,000 at par by draw of a lot)	3,00,000	 3,00,000
" "	Sundry Debentureholders Dr. To Bank (Being Payment made to sundry debentureholders for redeeming debentures of ₹ 3,00,000 at par)	3,00,000	 3,00,000
(iii) 1 2010 Jan.	Own Debentures Dr. To Bank (Being purchase of own debentures of the face value of ₹ 2,00,000 for ₹ 1,97,800)	1,97,800	 1,97,800
2011 "	9% Debentures Dr. To Own Debentures To Profit on Cancellation of Own Debentures Account (Being Cancellation of own debentures of the face value of ₹ 2,00,000 purchased last year for ₹ 1,97,800)	2,00,000	 1,97,800 2,200
" "	Profit on Cancellation of Own Debentures Account Dr. To Capital Reserve Account (Being transfer of profit on cancellation of own debentures to capital reserve)	2,200	 2,200
(iv) 2014 Jan.	9% Debentures Account Dr. Premium on Redemption of Debentures Account Dr. To Sundry Debentureholders (Being amount payable to holders of debentures of the face value of ₹ 4,00,000 on redemption at a premium of 2% as per resolution of the board of directors)	4,00,000 8,000	 4,08,000
" "	Sundry Debentureholders Dr.	4,08,000	

	To Bank Account (Being payment to sundry debentureholders)		4,08,000
" "	Securities Premium Account Dr. To Premium on Redemption of Debentures Account (Being utilisation of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures)	8,000	8,000

9. In the books of Hari Narayan Ltd. (Amalgamated Company)

Journal Entries

	Particulars		Debit	Credit
			₹	₹
1.	Business Purchase A/c	Dr.	25,12,000	
	To Liquidators of Hari Ltd.			11,52,000
	To Liquidators of Narayan Ltd.			13,60,000
	(Being purchase of business of Hari Ltd. and Narayan Ltd.- Refer Working Note)			
2.	Plant and Machinery A/c	Dr.	12,80,000	
	Trade receivables A/c	Dr.	1,52,000	
	Inventory A/c	Dr.	1,00,000	
	Cash and Bank A/c	Dr.	1,08,000	
	To Trade payables A/c			1,20,000
	To General Reserve A/c (8,80,000 – 5,12,000)			3,68,000
	To Business Purchase A/c			11,52,000
	(Being assets and liabilities of Hari Ltd. taken over)			
3.	Plant and Machinery A/c	Dr.	17,00,000	
	Trade receivables A/c	Dr.	1,25,000	
	Inventory A/c	Dr.	1,35,000	
	Cash and Bank A/c	Dr.	1,00,000	
	To Debentureholders A/c (95% of 5,00,000)			4,75,000
	To Trade payables A/c			2,25,000
	To Business Purchase A/c			13,60,000
	(Being assets and liabilities of Narayan Ltd. taken over)			
4.	Liquidator of Hari Ltd. A/c	Dr.	11,52,000	
	To Equity Share Capital A/c			9,60,000
	To Securities Premium A/c			1,92,000
	(Being equity shares issued at 20% premium to shareholders of Hari Ltd.)			

5.	Liquidators of Narayan Ltd. A/c	Dr.	13,60,000	
	To Equity Share Capital A/c			8,60,000
	To 15% Preference Share Capital A/c			5,00,000
	(Being issue of shares to discharge purchase consideration)			
6.	Debentureholders of Narayan Ltd. A/c	Dr.	4,75,000	
	To Debentures A/c			4,75,000
	(Being own debentures issued against debentures of Narayan Ltd.)			

Balance Sheet of Hari Narayan Ltd. after amalgamation

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	23,20,000
(b) Reserves and Surplus	2	5,60,000
(2) Non-current Liabilities		
Long-term borrowings	3	4,75,000
(3) Current Liabilities		
Trade payables		3,45,000
Total		37,00,000
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	4	29,80,000
(2) Current assets		
(a) Inventories		2,35,000
(b) Trade receivables		2,77,000
(c) Cash and cash equivalents		2,08,000
Total		37,00,000

1.

Notes to Accounts

		₹
1.	Share Capital	
	Equity shares of ₹ 10 each	18,20,000

	Preference shares of ₹ 10 each	5,00,000
		23,20,000
2.	Reserves and surplus	
	General Reserve	3,68,000
	Securities Premium	1,92,000
		5,60,000
3.	Long-term Borrowings	
	Secured Debentures	4,75,000
4.	Tangible Assets	
	Plant and Machinery	29,80,000

Working Notes:

Computation of Purchase Consideration

1. For Hari Ltd., the Payment Method is applied for determining the Purchase Consideration. Hence, the amalgamation is accounted under Pooling of Interests method.

   Number of shares to be issued by Hari Narayan Ltd. for Hari Ltd.'s shareholders = 64,000 x 3/2 = 96,000 shares.

   Since, the issue price is ₹ 12 per share, the Purchase Consideration is 96,000 x 12 = ₹ 11,52,000.

2. For Narayan Ltd. the Net Assets Method is applied for determining the Purchase Consideration. Since, the assets are not taken over at book value, the amalgamation is accounted under Purchase method.

		₹
Assets taken over:		
Plant and Machinery	(20,00,000 less 15%)	17,00,000
Trade receivables		1,25,000
Inventory	(1,50,000 less 10%)	1,35,000
Cash and Bank balance		1,00,000
Total Assets		20,60,000
Less: Liabilities		
Trade payables		(2,25,000)
Secured Debentures		(4,75,000)
Net Purchase Consideration		13,60,000

Discharge:		
Preference Shareholders	(7,50,000 x 2/3)	5,00,000
Equity Shareholders (bal. fig.)	(13,60,000-5,00,000)	8,60,000
		13,60,000

10. Journal Entries in the Books of Moon Ltd.

		Dr.	*Cr.*
		₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c Dr.	25,00,000	
	To Equity Share Capital (₹ 5 each) A/c		12,50,000
	To Reconstruction A/c		12,50,000
	(Being conversion of 2,50,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)		
(ii)	9% Preference Share Capital (₹ 100 each) A/c Dr.	10,00,000	
	To 10% Preference Share Capital (₹ 50 each) A/c		5,00,000
	To Reconstruction A/c		5,00,000
	(Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)		
(iii)	10% First Debentures A/c Dr.	2,00,000	
	10% Second Debentures A/c Dr.	3,00,000	
	Trade payables A/c Dr.	50,000	
	Interest on Debentures Outstanding A/c Dr.	50,000	
	Bank A/c Dr.	50,000	
	To 12% New Debentures A/c		3,50,000
	To Reconstruction A/c		3,00,000
	(Being ₹ 3,00,000 due to A (including creditors) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)		
(iv)	10% First Debentures A/c Dr.	1,00,000	
	10% Second Debentures A/c Dr.	2,00,000	
	Trade Payable A/c Dr.	25,000	
	Interest on Debentures Outstanding A/c Dr.	30,000	

	To 12% New Debentures A/c		2,05,000
	To Reconstruction A/c		1,50,000
	(Being ₹ 1,50,000 due to B (including creditors) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)		
(v)	Trade Payables A/c Dr.	87,500	
	To Reconstruction A/c		87,500
	(Being remaining trade payable sacrificed 50% of their claim)		
(vi)	Directors' Loan A/c Dr.	50,000	
	To Equity Share Capital (₹ 5) A/c		30,000
	To Reconstruction A/c		20,000
	(Being Directors' loan claim settled by issuing 6,000 equity shares of ₹ 5 each as per scheme of reconstruction.)		
(vii)	Reconstruction A/c Dr.	7,500	
	To Bank A/c		7,500
	(Being payment made for cancellation of capital commitments.)		
(viii)	Bank A/c Dr.	55,000	
	To Reconstruction A/c		55,000
	(Being refund of fees by directors credited to reconstruction A/c.)		
(ix)	Reconstruction A/c Dr.	5,000	
	To Bank A/c		5,000
	(Being payment of reconstruction expenses.)		
(x)	Provision for Tax A/c Dr.	50,000	
	To Bank A/c		40,000
	To Reconstruction A/c		10,000
	(Being payment of tax for 80% of liability in full settlement)		
(xi)	Reconstruction A/c Dr.	23,60,000	
	To Goodwill A/c		5,00,000
	To Patent A/c		2,50,000
	To Profit and Loss A/c		8,00,000

	To Land and Building A/c		1,00,000
	To Plant and Machinery A/c		3,00,000
	To Furniture & Fixture A/c		50,000
	To Computers A/c		60,000
	To Trade Investment A/c		50,000
	To Inventory A/c		1,50,000
	To Trade receivables A/c		1,00,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction.)		

Working Notes:

(1) Outstanding interest on debentures have been allocated between A and B as follows:

A's Share ₹			
10% First Debentures	2,00,000		
10% Second Debentures	3,00,000	5,00,000	
10% on ₹ 5,00,000 i.e.			50,000
B's Share			
10% First Debentures	1,00,000		
10% Second Debentures	2,00,000	3,00,000	
10% on ₹ 3,00,000 i.e.			30,000
Total			80,000

(2) Bank Account

		₹			₹
To	A (reconstruction)	50,000	By	Balance b/d	50,000
To	Reconstruction A/c (paid by directors)	55,000	By	Reconstruction A/c (capital commitment penalty paid)	7,500
			By	Reconstruction A/c (reconstruction expenses paid)	5,000
			By	Provision for tax A/c (tax paid)	40,000
			By	Balance c/d	2,500
		1,05,000			1,05,000

11. (i) Liquidator's Statement of Account

	₹			₹
To Assets Realised	10,00,000	By Liquidator's remuneration		
To Receipt of call money on 14,500 equity shares @ 2 per share	29,000	2.5% on 11,60,000*	29,000	
		2% on 25,000	500	
		2% on 6,56,373 (W.N.3)	13,127	42,627
		By Liquidation Expenses		5,000
		By Debenture holders having a floating charge on all assets		3,00,000
		By Preferential creditors		25,000
		By Unsecured creditors		6,56,373
	10,29,000			10,29,000

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

$$= \frac{6,56,373}{9,15,000} \times 100 = 71.73\%$$

Working Notes:

1. Unsecured portion in partly secured creditors=₹ 1,75,000 -₹ 1,60,000 = ₹ 15,000
2. Total unsecured creditors = 9,00,000 + 15,000 (W.N.1) = ₹ 9,15,000
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 = ₹ 6,69,500

Liquidator's remuneration on unsecured creditors = ₹ 6,69,500 x 2/102 ₹ 13,127

or on ₹ 6,56,373 x 2/100 = ₹ 13,127

* Total assets realised = ₹ 10,00,000 + ₹ 1,60,000 = ₹ 11,60,000

12. Form B – RA (Prescribed by IRDA)

Priya General Insurance Co. Ltd

Revenue Account for the year ended 31st March, 2013

Fire and Marine Insurance Businesses

	Schedule	*Fire Current Year*	*Marine Current Year*
		₹	₹
Premiums earned (net)	1	2,13,750	70,000
Interest, Dividends and Rent – Gross		—	—
Double Income Tax refund		—	—
Profit on sale of motor car		—	—
Total (A)		2,13,750	70,000
Claims incurred (net)	2	41,000	44,000
Commission	3	20,000	10,000
Operating expenses related to Insurance business	4	35,000	25,000
Bad debts		—	—
Indian and Foreign taxes		—	—
Total (B)		96,000	79,000
Profit from Marine Insurance business (A-B)		1,17,750	(9,000)

Schedules forming part of Revenue Account

Schedule –1

Premiums earned (net)	*Fire Current Year*	*Marine Current Year*
	₹	₹
Premiums from direct business written	2,40,000	1,75,000
Less: Premium on reinsurance ceded	(12,500)	(7,500)
Total Premium earned	2,27,500	1,67,500
Less: Change in provision for unexpired risk	(13,750)	(97,500)
	2,13,750	70,000
Schedule – 2		
Claims incurred (net)	41,000	44,000

Schedule – 4		
Operating expenses related to insurance business		
Expenses of Management	35,000	25,000

Form B-PL

Priya General Insurance Co. Ltd.

Profit and Loss Account for the year 31st March, 2013

Particulars	*Schedule*	*Current Year*	*Previous Year*
		₹	₹
Operating Profit/(Loss)			
(a) Fire Insurance		1,17,750	
(b) Marine Insurance		(9,000)	
(c) Miscellaneous Insurance		—	
Income From Investments			
(a) Interest, Dividend & Rent–Gross		64,500	
(b) Profit on sale of investments			
Less : Loss on sale of investments			
Other Income (To be specified)			
Total (A)		1,73,250	
Provisions (Other than taxation)		—	
Depreciation		4,500	
Other Expenses –Director's Fee		40,000	
Total (B)		44,500	
Profit Before Tax		1,28,750	
Provision for Taxation		49,569	
Profit After Tax		79,181	

Working Notes:

		Fire	*Marine*
		₹	₹
1.	Claims under policies less reinsurance		
	Claims paid during the year	50,000	40,000
	Add: Outstanding on 31st March, 2013	5,000	7,500

		55,000	4,7500
	Less : Outstanding on 1st April, 2012	(14,000)	(3,500)
		41,000	44,000
2.	Expenses of management		
	Expenses paid during the year	30,000	22,500
	Add: Outstanding on 31st March, 2013	5,000	2,500
		35,000	25,000
3.	Premiums less reinsurance		
	Premiums received during the year	2,25,000	1,65,000
	Add: Outstanding on 31st March, 2013	15,000	10,000
		2,40,000	1,75,000
	Less : Reinsurance premiums	(12,500)	(7,500)
		2,27,500	1,67,500

4. Reserve for unexpired risks is 50% of net premium for fire insurance and 100% of net premium for marine insurance.

5. **Provision for taxation account**

	₹		₹
31.3.2013 To Bank A/c		1.4.2012 By Balance b/d	42,500
(taxes paid)	30,000	31.3.2013 By P & L A/c	49,569
31.3.2013 To Balance c/d	62,069		
	92,069		92,069

13. (i) **Calculation of Rebate on bills discounted**

S.No.	*Amount (₹)*	*Due date 2013*	*Unexpired portion*	*Rate of discount*	*Rebate on bill discounted ₹*
(i)	7,50,000	April 8	8 days	12%	1,972
(ii)	3,00,000	May 5	35 days	14%	4,028
(iii)	4,40,000	June 12	73 days	14%	12,320
(iv)	9,60,000	July 15	106 days	15%	4,1820
					60,140

(ii) **Amount of discount to be credited to the Profit and Loss Account**

	₹
Transfer from Rebate on bills discount as on 31st March, 2012	91,600
Add: Discount received during the year ended 31st March, 2013	4,05,000

	4,96,600
Less: Rebate on bills discounted as on 31st March, 2013	60,140
Discount credited to the Profit and Loss Account	4,36,460

14. Balance Sheet of Jyoti Electric Supply Ltd. as on March 31, 2013

			Particulars	Note No.	₹ ('000)
			Equity and Liabilities		
1			Shareholders' funds		
	a		Share capital	1	75,00
	b		Reserves and Surplus	2	32,50
2			Non-current liabilities		
	a		Long-term borrowings	3	4,750
3			Current liabilities		-
	a		Trade Payables		7,50
	b		Other current liabilities	4	15,00
			Total		17,750
			Assets		-
1			Non-current assets		-
	a		Fixed assets		-
		i	Tangible assets	5	13,450
		ii	Intangible assets		2,50
	b		Other non-current assets	6	15,00
2			Current assets		-
	a		Inventories		14,50
	b		Trade receivables		8,00
	c		Cash and cash equivalents		3,00
			Total		17,750

Notes to financial statements

			₹ ('000)
1	Share Capital		
	Issued & subscribed		
	Equity share capital		
	7,50,000 Equity shares of ₹ 10 each		75,00
2	Reserves and Surplus		
	Capital reserve		9,00
	Contingency Reserve		15,00

	Balance of net revenue account		850
	Total		3,250
3	Long-term borrowings		
	Secured		
	14% Debentures		30,00
	11% Term Loan (considered secured)		17,50
	Total		47,50
4	Other Current liabilities		-
	Proposed dividend		15,00
	Total		15,00
5	Tangible assets		
	Land		15,50
	Building		42,50
	Plant & Machinery		
	Power Plant	75,00	
	Transformers	20,50	
	Public Lamps	4,00	99,50
	Electrical Instruments		7,00
			16,450
	Less: Depreciation fund		(30,00)
	Total		13,450
6	Other non-current assets		
	Contingency Reserve Investment (assumed as non-current item)		15,00

15. Statement showing the recomputation of Departmental Profit or Loss

	Particulars	A ₹	B ₹	C ₹	D ₹
A	Final Profit/(Loss) (Computed earlier)	(38,000)	50,400	72,000	1,08,000
B	*Add:* Departmental Manager's Commission @ 10% of Deptt. Profit subject to a minimum of ₹ 6,000 [Working Note (i)]	6,000	6,000	8,000	12,000
C	Profit before Deptt. Manager's commission (A+B)	(32,000)	56,400	80,000	1,20,000

D	*Less:* Profit earned through transfer of goods at loaded price remaining in stock at transfer department (W.N. 2)	(2,200)	-	(8,600)	-
E	Correct Departmental Profit (before manager's commission)(C-D)	(34,200)	56,400	71,400	1,20,000
F	*Less:* Manager's commission @ 10% of profit subject to a minimum of ₹ 6,000	(6,000)	(6,000)	(7,140)	(12,000)
G	Departmental Profit after Manager's commission (E-F)	(40,200)	50,400	64,260	1,08,000

Working Note:

1. Manager's Commission:

	Deptt. Profit/Loss	Commission	
A	(-) 38,000	6,000	
B	50,400	6,000	i.e. (50,400 x 1/9 = ₹ 5,600 less than ₹ 6,000
C	72,000	8,000	i.e. (72,000 x 1/9 = ₹ 8,000)
D	1,08,000	12,000	i.e. (1,08,000 x 1/9 = ₹ 12,000)

2. Unrealised Profit on stock transfer:

		₹
Dept. A:	₹ 22,000 to Deptt. B @ 110%, Profit thereon 22,000 x 10/110	2,000
	₹ 1,200 to Deptt. D @ 120% Profit thereon 1,200 x 20/120	200
		2,200
Dept. C	₹ 48,000 to Deptt. B 120% Profit thereon 48,000 x 20/120	8,000
	₹ 3,600 to Deptt. D @ 120 % Profit thereon 3,600 x 20/120	600
		8,600

16. Pune Branch Account

Particulars		₹	Particulars	₹	₹
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	1,000	1,68,000
To Bank (expenses)			By Goods sent to branch (return of goods by the branch to H.O.)		1,000
Rent	2,000		By Closing Balances:		
Salaries	2,400		Stock		5,000
Petty Cash	1,000		Petty Cash		650
Insurance	600	6,000	Debtors		4,900
To Net Profit		78,950	Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4 x ₹ 600)		150
		1,81,600			1,81,600

*Alternatively, the amount of liabilities could have been deducted from assets.

Working Note:

Calculation of petty cash balance at the end:	₹
Opening balance	500
Add: Cash received form the Head Office	1,000
Total Cash with branch	1,500
Less : Spent by the branch	850
Closing balance	650

17. (a) Basis of provisioning whether on no issues or on technical evaluation is the basis of making estimates and cannot be considered as Accounting Policy. As per AS 5, due to uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. An estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments.

The basis of change in provisioning is a guideline and the better way of estimating the provision for non-moving inventory on account of change. Hence, it is not a change in accounting policy. Accounting policy is the valuation of inventory on cost or on net realizable value or on lower of cost or net realizable value. Any interchange of this valuation base would have constituted change in accounting policy.

Further, the company should be able to demonstrate satisfactorily that having regard to circumstances provision made on the basis of technical evaluation provides more satisfactory results than provision based on 12 months issue. If that is the case, then the company can change the method of provision.

(b) (i) As per para 9 of AS 11 "Changes in Foreign Exchange Rates", a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Accordingly, on 31.12.2012, borrowings will be recorded at ₹ 2,20,00,000 (i.e $ 5,00,000 ×₹ 44.00)

As per para 11(a) of the standard, at each balance sheet date, foreign currency monetary items should be reported using the closing rate. Accordingly, on 31.03.2013, borrowings (monetary items) will be recorded at ₹ 2,22,50,000 (i.e. $ 5,00,000 × ₹ 44.50).

In the books of Aman Ltd.

Journal Entries

	Date	Particulars		₹	₹
1.	31-12-2012	Bank A/c	Dr.	2,20,00,000	
		To Borrowings			2,20,00,000
2.	31.03.2013	P/L A/c (Difference in exchange) (W.N.1)	Dr.	2,50,000	
		To Borrowings			2,50,000

3.	30.06.2013	Borrowings A/c Dr.	2,22,50,000	
		P/L A/c (Difference in exchange) (W.N.2) Dr.	1,25,000	
		To Bank A/c		2,23,75,000

Working Notes:

1. The exchange difference of ₹ 2,50,000 is arising because the transaction has been reported at different rate (₹ 44.50 =1 US $) from the rate initially recorded (i.e. ₹ 44 =1 US $).
2. The exchange difference of ₹ 1,25,000 is arising because the transaction has been settled at an exchange rate (₹ 44.75 =1 US $) different from the rate at which reported in the last financial statement (₹ 44.50= 1 US $).

18. (a) As per para 21 of AS-12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

(i) In this case the grant refunded is ₹ 30 lakhs and balance in deferred income is ₹ 21 lakhs, ₹ 9 lakhs shall be charged to the profit and loss account for the year 2013-14. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

(ii) If the grant was deducted from the cost of the plant in the year 2010-11 then, para 21 of AS-12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by ₹ 30 lakhs. The increased cost of ₹ 30 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2013-14 shall be (84 + 30)/7 years = ₹ 16.286 lakhs presuming the depreciation is charged on SLM.

(b) Investments other than investment properties are not qualifying assets as per AS-16 Borrowing Costs. Therefore, interest cost of holding such investments cannot be capitalized. Further, even interest in respect of investment properties can only be capitalized if such properties meet the definition of qualifying asset, namely, that it necessarily takes a substantial period of time to get ready for its intended use or sale. Also, where the investment properties meet the definition of 'qualifying asset', for the capitalization of borrowing costs, the other requirements of the standard such as that borrowing costs should be directly attributable to the acquisition or construction of the investment property and suspension of capitalization as per paragraphs 17 and 18 of AS-16 have to be complied with.

19. (a) (i) Computation of annual lease payment to the lessor

	₹
Cost of equipment	16,99,999.50
Unguaranteed residual value	1,33,500.00
Present value of residual value after third year @ 10% (₹ 1,33,500 × 0.751)	1,00,258.50
Fair value to be recovered from lease payments (₹ 16,99,999.5– ₹ 1,00,258.5)	15,99,741.00
Present value of annuity for three years is 2.486	
Annual lease payment = ₹ 15,99,741/ 2.486	6,43,500.00

(ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 6,43,500 x 3)	19,30,500
Add: Unguaranteed residual value	1,33,500
Gross investment in the lease	20,64,000.00
Less: Present value of investment (lease payments and residual value) (₹ 1,00,258.5+ ₹ 15,99,741)	(16,99,999.50)
Unearned finance income	3,64,000.50

(b) Earnings for the year = No. of Shares x Basic EPS

= 30,00,000 shares x ₹ 5 per share = ₹1,50,00,000

Adjusted net profit for the current year = Earnings for the year + Interest on debentures net of tax = 1,50,00,000 + (6,00,000 – 1,80,000) = ₹ 1,54,20,000

No. of equity shares resulting from conversion of debentures

= 50,000 x 10 shares = 5,00,000 shares

Total No. of equity shares for diluted EPS= 30,00,000 + 5,00,000 = 35,00,000 shares
Diluted earnings per share = ₹ 1,54,20,000/ 35,00,000 shares = ₹ 4.4 per share.

20. (a) As per AS 26 'Intangible Assets'

(i) For the year ending 31.03.2012

(1) Carrying value of intangible as on 31.03.2012:

At the end of financial year 31st March 2012, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of

₹ 28 lakhs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st December 2011).

(2) Expenditure to be charged to Profit and Loss account:

The ₹ 22 lakhs is recognized as an expense because the recognition criteria were not met until 1st December 2012. This expenditure will not form part of the cost of the production process recognized in the balance sheet.

(ii) For the year ending 31.03.2013

(1) Expenditure to be charged to Profit and Loss account:

	(₹ in lakhs)
Carrying Amount as on 31.03.2012	28
Expenditure during 2012 – 2013	80
Total book cost	108
Recoverable Amount	(72)
Impairment loss	36

₹ 36 lakhs to be charged to Profit and loss account for the year ending 31.03.2013.

(2) Carrying value of intangible as on 31.03.2013:

	(₹ in lakhs)
Total Book Cost	108
Less: Impairment loss	(36)
Carrying amount as on 31.03.2013	72

(b) Since the company is not appealing against the addition of ₹ 0.66 crore the same should be provided for in its accounts for the year ended on 31st March, 13. The amount paid under protest can be kept in the books as an advance and disclosed along with the contingent liability of ₹ 2.10 crore.