PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2015 EXAMINATION

A. Applicable for November, 15 Examination

(i) Paragraphs 46 for entities other than Companies

In line with para 46 inserted by the MCA for corporate entities, the Council of the ICAI has also inserted Paragraph 46 in AS 11 for entities other than Companies in the month of February, 2014:

46(1) In respect of accounting periods commencing on or after 7th December, 2006 (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 asset, can be added to or deducted from the cost of the asset and should be depreciated over the balance life of the asset, and in other cases, can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long-term asset 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.

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

Provided that the option exercised by the enterprise should 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."

(ii) Companies Act, 2013

The relevant Sections of the Companies Act, 2013 notified up to 31st March, 2015 will be applicable for Nov., 2015 Examination.

(iii) Maintenance of Statutory Liquidity Ratio (SLR)

As per Notification No. DBOD No.Ret. BC.70/12.02.001/2014-15 dated February 3, 2015, the SLR of Scheduled Commercial Banks, Local Area Banks and Regional

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Rural Banks should not be less than 21.5% of its demand and time liabilities with effect from the fortnight beginning February 7, 2015.

(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.

(v) SLR Holdings under Held to Maturity Category

In order to further develop the government securities market and enhance liquidity, it has been decided to bring down the ceiling on SLR securities under the HTM category from 24 per cent of NDTL to 22 per cent* in a graduated manner. Accordingly it is advised that: Banks are permitted to exceed the limit of 25 per cent of total investments under HTM category provided:

a. the excess comprises only of SLR securities, and

b. the total SLR securities held in the HTM category is not more than 23.50 per cent with effect from January 10, 2015, 23.0 per cent with effect from April 4, 2015, 22.5 per cent with effect from July 11, 2015 and 22.0 per cent with effect from September 19, 2015, of their DTL as on the last Friday of the second preceding fortnight.

* As per DBOD.No.BP.BC.42/21.04.141/2014-15 dated 7 October, 2014.

(vi) Revision in date of commencement of commercial operations

Circular no. DBOD.No.BP.BC.33/21.04.048/2014-15 dated 14 August, 2014, states that: revisions of the date of commencement of commercial operations (DCCO) and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will not be treated as restructuring provided that:

(a) The revised DCCO falls within the period of two years and one year from the original DCCO stipulated at the time of financial closure for infrastructure projects and non-infrastructure projects respectively; and

(b) All other terms and conditions of the loan remain unchanged.

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(vii) Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014

SEBI vide Circular No. LAD-NRO/GN/2014-15/16/1729 dated 28th October, 2014 has formulated the SEBI (Share Based Employee Benefits) Regulations, 2014 which replaces the SEBI (Employees Stock Option Plan) Guidelines, 1999. The said Regulations deal with various provisions relating to employee stock option schemes, employee stock purchase schemes, stock appreciation rights schemes, general employee benefits schemes and retirement benefit schemes formulated by listed companies. The regulations deal with definition of eligible employees, formation of compensation committee, shareholders approvals variation of terms of issue, listing, compliances etc. For the complete text of this notification please refer to the link: http://www.sebi.gov.in/cms/sebi_data/attachdocs/1414568485252.pdf

B. <u>Not applicable for November, 15 examination</u>

(i) Ind ASs issued by the Ministry of Corporate Affairs

These Ind ASs are not applicable for the students appearing in November, 15 Examination.

(ii) Financial Reporting of Electricity Companies

The topic on "Financial Statements of Electricity Companies" has been excluded from the syllabus w.e.f. November, 2015 Examination and onwards.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Partnership Accounts

Dissolution of partnership firm

1. P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2014 when their Balance Sheet was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	1,90,000
P	1,50,000	Stock	1,30,000
Q	1,50,000	Investments	50,000
R	-	Debtors	70,000
S	60,000	Cash	30,000

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General reserve	40,000	R	40,000
Trade creditors	80,000		
Bills payable	30,000		
	5,10,000		5,10,000

Following information is given to you:

(i) A cheque for ₹ 7,000 received from debtor was not recorded in the books and was misappropriated by R.

(ii) Investments costing ₹ 8,000 were sold by R at ₹ 11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.

(iii) A creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.

(iv) The other assets realized as follows:

Building 110% of book value

Stock ₹ 1,20,000

Investments The rest of investments were sold at a profit of ₹ 7,000

Debtors The rest of the debtors were realized at a discount of 10%

(v) The bills payable were settled at a discount of ₹ 500.

(vi) The expenses of dissolution amounted to ₹ 8,000

(vii) It was found out that realization from R's private assets would only be ₹ 7,000.

Prepare Realisation Accounts, Cash Account and Partner's Capital Account. All workings should part of your answer.

Sale of Partnership firm to Company

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

Following is the summarized Balance Sheet of the firm and that of the company as at 31.3.2015:

Liabilities	XYZ & Co. ₹	ABC Ltd. ₹		XYZ & Co. ₹	ABC Ltd. ₹
Equity share capital:			Plant & machinery	5,00,000	16,00,000
Equity shares of ₹ 10 each		20,00,000	Furniture & fixture	50,000	2,25,000
Partners capital:			Inventories	2,00,000	8,50,000

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X	2,00,000		Trade receivables	2,00,000	8,25,000
Y	3,00,000		Cash at bank	10,000	4,00,000
Z	1,00,000		Cash in hand	40,000	1,00,000
General reserve	1,00,000	7,00,000			
Trade payables	3,00,000	13,00,000			
	10,00,000	40,00,000		10,00,000	40,00,000

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

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

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

Prepare:

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

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

Conversion of partnership into a Company

3. P, Q and R are partners sharing profits and losses in the ratio 3 : 2 : 1 after allowing interest on capital @ 9% p.a. Their Balance Sheet as at 31st March, 2015 are as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Plant & Machinery	1,08,000
P	50,000		Fixtures	20,000
Q	30,000		Stock	50,000
R	20,000	1,00,000	Sundry Debtors	30,000
Reserve Fund		60,000		
Creditors		48,000		
		2,08,000		2,08,000

They applied for conversion of the firm into a Private Limited Company named PQR Pvt. Ltd. and the certificate was received on 01-04-2015. They decided to maintain same profit sharing ratio and to preserve the priority in regard to repayment of capital as far as

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possible. For that purpose, they decided to insert a clause of issuance of Preference shares in Memorandum of Association in addition to issuance of Equity shares of ₹ 10 each.

On 01-04-2015, the value of goodwill is to be determined on the basis of 2 years' purchase of the average profit from the business of the last 5 years. The particulars of profits are as under:

		₹
Year ended 31.03.2011	Profit	10,000
Year ended 31.03.2012	Loss	5,000
Year ended 31.03.2013	Profit	18,000
Year ended 31.03.2014	Profit	27,000
Year ended 31.03.2015	Profit	30,000

The loss for the year ended 31-03-2012 was on account of loss by strike to the extent of 10,000.

It was agreed that rest of the assets are valued on the basis of the Balance Sheet as at 31-03-2015 except Plant & Machinery which is valued at ₹ 1,02,000.

You are required to prepare (a) the Balance Sheet of the Company as at 01-04-2015, (b) Partners' Capital Accounts and (c) Statement showing the final settlement between the partners taking Q's capital as basis.

Issues related to Accounting in LLPs

4. Differentiate on ordinary partnership firm with an LLP. Under what circumstances, an LLP may be wound up by the Tribunal?

Employees Stock Option Plan

5. On 1st April, 2014, a company offered 100 shares to each of its 400 employees at ₹ 25 per share. The employees are given a month to accept the shares. The shares issued under the plan shall be subject to lock-in to transfer for three years from the grant date i.e. 30, April 2014. The market price of shares of the company on the grant date is ₹ 30 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 28 per share.

   Up to 30th April, 2014, 50% of employees accepted the offer and paid ₹ 25 per share purchased. Nominal value of each share is ₹ 10. Record the issue of shares in the books of the company under the aforesaid plan.

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Redemption of Debentures

6. The summarised Balance Sheet of ABC Limited, as on 30th June, 2014, stood as follows:

Liabilities	₹
Share Capital : 8,00,000 equity shares of ₹ 10 each fully paid	80,00,000
General Reserve	1,10,00,000
Debenture Redemption Reserve	70,00,000
12% Convertible Debentures, 1,50,000 Debentures of ₹ 100 each	1,50,00,000
Other loans	70,00,000
Current Liabilities and Provisions	1,80,00,000
	6,60,00,000
Assets:	
Fixed Assets (at cost less depreciation)	2,50,00,000
Debenture Redemption Reserve Investments	60,00,000
Cash and bank Balances	80,00,000
Other Current Assets	2,70,00,000
	6,60,00,000

The debentures are due for redemption on 30th June, 2014. The terms of issue of debentures provided that they were redeemable at a 10% premium and also conferred option to the debenture holders to convert 25% of their holding into equity shares at a predetermined price of ₹ 27.50 per share and the balance payment in cash.

Assuming that:

(i) except for 80 debenture holders holding totally 50,000 debentures, the rest of them exercised the option for maximum conversion.

(ii) the investments realise ₹ 70 lakhs on sale; and

(iii) all the transactions are put through, without any lag, on 30th June, 2014.

Redraft the balance sheet of the company as on 30th June, 2014 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary.

Buy Back of Securities

7. M Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2015:

	₹ in '000	₹ in '000
Equity & Liabilities		
Share Capital:		
Authorized Capital:		10,000

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Issued and Subscribed Capital :		
6,00,000 Equity shares of ₹ 10 each fully paid up	6,000	
40,000 9% Preference Shares of 100 each	4,000	10,000
Reserve and Surplus:		
Capital reserve	20	
Revenue reserve	8,000	
Securities premium	1,000	
Profit and Loss account	3,600	12,620
Non-current liabilities - 10% Debentures		500
Current liabilities and provisions		380
		23,500
Assets		
Fixed Assets: Cost	6,000	
Less: Provision for depreciation	500	5,500
Non-current investments at cost		10,000
Current assets, loans and advances (including cash and bank balances)		8,000
		23,500

The company passed a resolution to buy back 10% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 60 lakhs for ₹ 50 lakhs. The company also redeemed all preference shares at par on 1st April, 2015.

You are required to pass necessary Journal entries and prepare the Balance Sheet on 01.04.2015.

Underwriting of Securities

8. Shri Ltd. company made a public issue of 10,00,000 equity shares of ₹ 100 each, ₹ 60 payable on application. The entire issue was underwritten by four parties: M, N, O, and P in the proportion of 35% and 30%, 25% and 10% respectively.

   Under the terms agreed upon, a commission of 3% was payable on the amounts underwritten.

   M, N, O, and P also agreed on 'firm'; underwriting of 30,000, 50,000, 40,000 and 18,500 shares respectively.

   The total subscriptions, excluding firm underwriting, including marked applications were for 8,00,000 shares. Marked applications received were as under :

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M: 2,50,000 N: 2,00,000 O: 2,00,000 P: 80,000

Ascertain the liability of the individual underwriters, when benefit of firm underwriting is given to individual underwriters, and also show the journal entries that you would make in the books of the company. All workings should form part of your answer.

Internal Reconstruction of a Company

9. Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2014 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital			
50,000 shares of ₹ 50		Goodwill	22,00,000
each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 shares of ₹ 50		Machinery	8,50,000
each ₹ 40 paid up	40,00,000	Computers	5,20,000
Capital Reserve	5,00,000	Inventories	3,20,000
8% Debentures of ₹ 100 each	4,00,000	Trade receivables	10,90,000
12% Debentures of ₹ 100 each	6,00,000	Cash at Bank	2,68,000
Trade payables	12,40,000	Profit & Loss Account	7,82,000
Outstanding Expenses	10,60,000		
Total	1,03,00,000	Total	1,03,00,000

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹ 12,50,000.

(3) Trade payables are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for ₹ 7,50,000 accept equity

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shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. Shiv agrees to cancel debentures amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.

(5) Mr. Ganesh agrees to cancel debentures amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Inventories at ₹ 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

Amalgamation of Companies

10. The following draft Balance Sheets are given as on 31st March, 2014:

	(₹ in lakhs)			(₹ in lakhs)	
	Best Ltd. ₹	Better Ltd. ₹		Best Ltd. ₹	Better Ltd. ₹
Share Capital:			Fixed Assets	25	15
Shares of ₹ 100, each			Investments	5	–
fully paid	20	10	Current Assets	20	5
Reserve and Surplus	10	8			
Other Liabilities	20	2			
	50	20		50	20

The following further information is given —

(a) Better Limited issued bonus shares on 1st April, 2014, in the ratio of one share for every two held, out of Reserves and Surplus.

(b) It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Best Ltd.

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(c) The value of shares in Best Ltd. was considered to be ₹ 150 and the shares in Better Ltd. were valued at ₹ 100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.

(d) Liabilities of Better Ltd., included ₹ 1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of ₹ 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 2014 after the takeover.

Liquidation of Company

11. Raghu Ltd. went into voluntary liquidation on 31st March, 2014 when their Balance Sheet read as follows:—

Liabilities	₹
Issued and subscribed capital :	
2,500 equity shares of ₹ 100 each, ₹ 75 paid	1,87,500
7,500 equity shares of ₹ 100 each, ₹ 60 paid	4,50,000
5,000 6% cumulative preference shares of ₹ 100 each, fully paid	5,00,000
Reserve and Surplus	
Profit & Loss Account	(4,10,000)
Non –Current Liabilities	
5% Debentures (secured by a floating charge on all assets)	2,50,000
Current Liabilities	
Short term borrowings- Bank overdraft	1,00,000
Trade payables(unsecured)	2,25,000
Current Liabilities	
Interest due on Debentures	12,500
Taxes due to Government within 12 months	12,500
Salaries and wages to workers due for 4 months	60,000
	13,87,500
Assets	
Tangible assets	
Land	50,000
Building	2,00,000
Machinery and Plant	6,25,000

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Current assets	
Inventories	1,37,500
Trade receivables	2,75,000
Cash and cash equivalents	1,00,000
	13,87,500

Other information:

1. Bank overdraft is secured by deposit of title deed of land and building which realised ₹ 3,00,000.
2. The assets realised as follows :

   Machinery and Plant ₹ 5,00,000;

   Inventories ₹ 1,50,000;

   Trade receivables ₹ 2,00,000
3. Preference dividends were in arrears for 2 years.
4. Expenses of liquidation amounted to ₹ 57,250.
5. The liquidator is entitled to a commission of 5% on all assets realised except cash and 1% on the amount distributed to Trade payables.
6. Liquidator realised all assets on the above date and discharged his obligation on the same date.

Prepare liquidator's Statement of Account.

Financial Statements of Insurance Companies

12. From the following balances extracted from the books of Gemini Insurance Company Limited as on 31.3.2014 you are required to prepare Revenue Accounts in respect of Fire and Marine Insurance business for the year ended 31.3.2014 to and a Profit and Loss Account for the same period:

	₹		₹
Directors' Fees	1,84,000	Interest received	44,000
Dividend received	2,30,000	Fixed Assets (1.4.2013)	20,00,000
Provision for Taxation		Income-tax paid during	
(as on 1.4. 2013)	1,95,000	the year	1,40,000

	Fire	Marine
	₹	₹
Outstanding Claims on 1.4. 2013	63,000	15,000

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Claims paid	2,30,000	1,84,000
Reserve for Unexpired Risk on 1.4.2013	4,60,000	3,20,000
Premiums Received	10,00,000	7,50,000
Agent's Commission	92,000	46,000
Expenses of Management	1,40,000	1,00,000
Re-insurance Premium (Dr.)	60,000	35,000

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

(a) Depreciation on Fixed Assets to be provided at 5% p.a.

(b) Interest accrued on investments ₹ 23,000.

(c) Closing provision for taxation on 31.3. 2014 to be maintained at ₹ 2,05,000.

(d) Claims outstanding on 31.3. 2014 were Fire Insurance ₹ 23,000; Marine Insurance ₹ 34,000.

(e) Premium outstanding on 31.3.2014 were Fire Insurance ₹ 70,000; Marine Insurance ₹ 45,000.

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

(g) Expenses of management due on 31.3.2014 were ₹ 20,000 for Fire Insurance and ₹ 10,000 in respect of marine Insurance.

Financial Statements of a Banking Company

13. The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2014.

	₹
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, exchange and brokerage	3,04,000
Rent received	1,04,000
Profit on sale of investments	3,20,000

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Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

(i) A customer to whom a sum of ₹ 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.

(ii) There were also other debts for which a provision of ₹ 2,10,000 was found necessary by the auditors.

(iii) Rebate on bills discounted on 31.3.2013 was ₹ 19,000 and on 31.3.2014 was ₹ 25,000.

(iv) Preliminary expenses are to be fully written off during the year.

(v) Provide ₹ 9,00,000 for Income-tax.

(vi) Profit and Loss account opening balance was Nil as on 31.3. 2013.

Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3. 2014.

Departmental Accounts

14. Department P sells goods to Department S at a profit of 25% on cost and to Department Q at a profit of 15% on cost. Department S sells goods to P and Q at a profit of 20% and 30% on sales respectively. Department Q sells goods to P and S at 20% and 10% profit on cost respectively.

Departmental Managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated. Departmental profits after charging Manager's commission, but before adjustment of unrealized profits are as below:

	₹
Department P	90,000
Department S	60,000
Department Q	45,000

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Stock lying at different Departments at the end of the year are as below:

			Figures in ₹
	DEPARTMENTS		
	P	S	Q
Transfer from P	-	18,000	14,000
Transfer from S	48,000	-	38,000
Transfer from Q	12,000	8,000	-

Find out correct Departmental Profits after charging Managers' Commission.

Branch Accounting

15. Show adjustment Journal entry in the books of Head Office at the end of April, 2014 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch accounts in its books.

A. **A.P. Branch:**

(1) Received goods from M.P. – ₹ 30,000 and ₹ 25,000 from U.P.

(2) Sent goods to W.B. – ₹ 20,000, U.P. – ₹ 30,000.

(3) Bill Receivable received – ₹ 10,000 from W.B.

(4) Acceptances sent to M.P. – ₹ 10,000, U.P. – ₹ 20,000.

B. **M.P. Branch (apart from the above) :**

(5) Received goods from U.P. – ₹ 20,000, A.P – ₹ 10,000.

(6) Cash sent to A.P – ₹ 20,000, U.P. – ₹ 10,000.

C. **W.B. Branch (apart from the above) :**

(7) Received goods from U.P. – ₹ 40,000.

(8) Acceptances and Cash sent to U.P. – ₹ 10,000 and ₹ 15,000 respectively.

D. **U.P. Branch (apart from the above) :**

(9) Paid cash to W.B. – ₹ 20,000 and M.P. – ₹ 10,000

Framework for Preparation and Presentation of Financial Statements

16. (a) With regard to financial statements name any four.

(1) Users

(2) Qualitative characteristics

(3) Elements

(b) What are fundamental accounting assumptions?

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Problems based on Accounting Standards

AS 4

17. (a) An earthquake destroyed a major warehouse of PQR Ltd. on 30.4.2014. The accounting year of the company ended on 31.3.2014. The accounts were approved on 30.6.2014. The loss from earthquake is estimated at ₹ 25 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

AS 5

(b) Explain whether the following will constitute a change in accounting policy or not as per AS 5.

(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organistaion. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization?

AS 11

18. (a) Assets and liabilities and income and expenditure items in respect of integral foreign operations are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue. Comment.

AS 12

(b) White Ltd. A fixed asset is purchased for ₹ 25 lakhs. Government grant received towards it is ₹ 10 lakhs. Residual Value is ₹ 5 lakhs and useful life is 5 years. Assume depreciation on the basis of Straight Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of ₹ 6 lakhs due to non compliance with certain conditions. Pass journal entries for first two years.

AS 16

19. (a) G Ltd. began construction of a new building on 1st January, 2014. It obtained ₹ 2 lakh special loan to finance the construction of the building on 1st January, 2014 at an interest rate of 11%. The company's other outstanding two non-specific loans were:

Amount	Rate of Interest
₹ 3,00,000	12%
₹ 7,00,000	14%

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The expenditures that were made on the building project were as follows:

		₹
January	2014	1,60,000
May	2014	2,70,000
August	2014	4,20,000
December	2014	1,50,000

Building was completed by 31st December, 2014. Following the principles prescribed in AS 16 'Borrowing Cost,' calculate the amount of interest to be capitalized and pass one Journal Entry for capitalizing the cost and borrowing cost in respect of the building.

AS 19

(b) (i) Distinguish between operating lease and finance lease.

(ii) L Private Limited has taken machinery on lease from P Ltd. The information is as under:

Lease term = 4 years

Fair value at inception of lease = ₹ 20,00,000

Lease rent = ₹ 6,25,000 p.a. at the end of year

Guaranteed residual value = ₹ 1,25,000

Expected residual value = ₹ 3,75,000

Implicit interest rate = 15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Calculate the value of the lease liability as per AS19.

AS 20

20. (a) From the information furnished you are required to compute the Basic and Diluted EPS (earnings per share) for accounting year 01-04-2014 to 31-03-2015 and adjusted EPS for the year 01-04-2013 to 31-03-2014.

Net profit for year ended 31-03-2014	₹ 75,50,000
Net profit for year ended 31-03-2015	₹ 1,00,25,000
No. of equity shares as on 01-04-2014	50,00,250
Bonus issue on 01-01-2015	1 share for every 2 held
No. of 12% Convertible Debentures of ₹ 100 each issued on 01-01-2015	1,00,000

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Conversion ratio of Debentures	10 shares per debenture
Tax rate	30 percent

AS 26

(b) AB Ltd. launched a project for producing product X in October, 2013. The Company incurred ₹ 20 lakhs towards Research and Development expenses upto 31st March, 2015. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years. Advise the Company as per the applicable Accounting Standard.

SUGGESTED ANSWERS/HINTS

1. **Realisation Account**

Particulars	₹	*Particulars*		₹
To Building	1,90,000	By Trade creditors		80,000
To Stock	1,30,000	By Bills payable		30,000
To Investment	50,000	By Cash		
To Debtors	70,000	Building	2,09,000	
To Cash-creditors paid (W.N.1)	63,650	Stock	1,20,000	
To Cash-expenses	8,000	Investments (W.N.2)	40,000	
To Cash-bills payable (30,000-500)	29,500	Debtors (W.N. 3)	56,700	4,25,700
To Partners' Capital A/cs		By R -Debtors-unrecorded		7,000
P 4,183		By R- Investments-unrecorded		11,000
Q 4,183				
R 2,789				
S 1,395	12,550			
	5,53,700			5,53,700

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Cash Account

Particulars		*Amount* ₹	*Particulars*	*Amount* ₹
To Balance b/d		30,000	By Realisation-creditors paid	63,650
To Realisation – assets realised			By Realisation-bills payable	29,500
Building	2,09,000		By Realisation-expenses	8,000
Stock	1,20,000		By Capital account	
Investments	40,000		P	1,51,132
Debtors	56,700	4,25,700	Q	1,51,132
To R's capital A/c		7,000	S	59,286
		4,62,700		4,62,700

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Partners' Capital Accounts

Particulars	*P*	*Q*	*R*	*S*	*Particulars*	*P*	*Q*	*R*	*S*
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d			40,000		By Balance b/d	1,50,000	1,50,000	-	60,000
To Realisation A/c- Debtors-misappropriation			7,000		By General reserve	13,333	13,333	8,889	4,445
To Realisation A/c- Investment-misappropriation			11,000		By Realisation profit	4,183	4,183	2,789	1,395
To R's capital A/c (W.N. 4)	16,384	16,384		6,554	By Cash A/c			7,000	
To Cash A/c	1,51,132	1,51,132		59,286	By P's capital A/c			16,384	
					By Q's capital A/c			16,384	
					By S's capital A/c			6,554	
	1,67,516	1,67,516	58,000	65,840		1,67,516	1,67,516	58,000	65,840

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Working Notes:

1. **Amount paid to creditors in cash**

	₹
Book value	80,000
Less: Creditors taking over investments	(13,000)
	67,000
Less: Discount @ 5%	(3,350)
	63,650

2. **Amount received from sale of investments**

	₹
Book value	50,000
Less: Misappropriated by R	(8,000)
	42,000
Less: Taken over by a creditor	(9,000)
	33,000
Add: Profit on sale of investments	7,000
Cash received from sale of remaining investment	40,000

3. **Amount received from debtors**

	₹
Book value	70,000
Less: Unrecorded receipt	(7,000)
	63,000
Less: Discount @ 10%	(6,300)
	56,700

4. **Deficiency of R**

	₹
Balance of capital as on 31st March, 2014	40,000
Debtors-misappropriation	7,000
Investment-misappropriation	11,000
	58,000
Less: Realisation Profit	(2,789)

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General reserve	(8,889)
Contribution from private assets	(7,000)
Net deficiency of capital	39,322

This deficiency of ₹ 39,322 in R's capital account will be shared by other partners P, Q and S in their capital ratio of 15 : 15 : 6.

Accordingly,

P's share of deficiency = [39,322 x (15/36)] = ₹ 16,384

Q's share of deficiency = [39,322 x (15/36)] = ₹ 16,384

S's share of deficiency = [39,322 x (6/36)] = ₹ 6,554

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

Realisation Account

		₹			₹
To	Plant & Machinery	5,00,000	By	Trade payables	3,00,000
To	Furniture & Fixture	50,000	By	ABC Ltd. (Refer W.N.)	6,00,000
To	Stock in trade	2,00,000	By	Partners' Capital Accounts (loss):	
To	Trade receivables	2,00,000		X's Capital A/c	20,000
				Y's Capital A/c	20,000
				Z's Capital A/c	10,000
		9,50,000			9,50,000

Partners' Capital Accounts

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

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Cash and Bank Account

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

(ii) **In the Books of ABC Ltd.**

Journal Entries

			Dr. (₹)	Cr. (₹)
1.	Business Purchase Account	Dr.	6,00,000	
	To XYZ & Co.			6,00,000
	(Being business of XYZ & Co. purchased and payment due)			
2.	Plant and Machinery Account	Dr.	5,00,000	
	Furniture and Fixture Account	Dr.	50,000	
	Inventories Account	Dr.	2,00,000	
	Trade Receivables Account	Dr.	2,00,000	
	To Trade Payables Account			3,00,000
	To Unrecorded Liability Account			25,000
	To Business Purchase Account			6,00,000
	To Capital Reserve Account (Bal. Fig.)			25,000
	(Being take over of all assets and liabilities)			
3.	XYZ & Co.	Dr.	6,00,000	
	To Equity Share Capital Account			5,00,000

*It is assumed that cash at bank has been withdrawn to pay ₹ 80,000 to partner Y. However, payment to Y of ₹ 80,000 can also be made by cash ₹ 70,000 & by cheque ₹ 10,000.

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	To Securities Premium Account			1,00,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)			
4.	Trade Payables Account	Dr.	1,00,000	
	To Trade Receivables Account			1,00,000
	(Being mutual owings eliminated)			

Balance Sheet of ABC Ltd. (After take over of XYZ & Co.)

as at 31.3.20015

	Note No.	₹
Equity and Liabilities		
Shareholders funds		
Share capital	1	25,00,000
Reserve and Surplus	2	8,25,000
Current liabilities		
Trade Payables (3,00,000 + 13,00,000 – 1,00,000)		15,00,000
Others (Unrecorded Liability)		25,000
Total		48,50,000
Assets		
Non-current assets		
Fixed assets		
Tangible assets	3	23,75,000
Current assets		
Inventories(2,00,000 + 8,50,000)		10,50,000
Trade Receivables (2,00,000 + 8,25,000 – 1,00,000)		9,25,000
Cash and cash equivalent	4	5,00,000
Total		48,50,000

Notes to Accounts

			₹
1.	*Share Capital*		
	2,50,000, Equity shares of ₹ 10 each fully paid up		25,00,000

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	(out of which 50,000 shares has been issued for consideration other than cash)		
2	*Reserve and Surplus*		
	Securities Premium	1,00,000	
	Capital Reserve	25,000	
	General Reserve	7,00,000	8,25,000
3.	*Tangible assets*		
	Plant and Machinery (5,00,000 + 16,00,000)	21,00,000	
	Furniture and fixture (50,000 + 2,25,000)	2,75,000	23,75,000
4.	*Cash and cash equivalent*		
	Cash at Bank	4,00,000	
	Cash in hand	1,00,000	5,00,000

Working Note:

Computation of purchase consideration:

50,000, Equity shares of ₹ 12 (10+2) each = ₹ 6,00,000

Equity shares distributed among partners:

Partner X	=	20,000 shares @ ₹ 12	= ₹ 2,40,000
Partner Y	=	20,000 shares @ ₹ 12	= ₹ 2,40,000
Partner Z	=	10,000 shares @ ₹ 12	= ₹ 1,20,000
			₹ 6,00,000

3. (a) **Balance Sheet of the PQR Pvt. Ltd. as on 1-4-2015**

	Note No.	₹
Equity and Liabilities		
Shareholders funds		
Share capital	1	1,90,000
Current liabilities		
Trade Payables		48,000
Total		2,38,000
Assets		
Non-current assets		
Fixed assets		
Tangible assets	2	1,22,000

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Intangible assets	3	36,000
Current assets		
Inventories		50,000
Trade Receivables		30,000
Total		2,38,000

Notes to Accounts

		₹
1.	*Share Capital*	
	Equity share capital 18,000 fully paid shares of ₹ 10 each	1,80,000
	Preference share capital (9% Preference Shares)	10,000
	(All the shares have been issued for consideration other than cash)	1,90,000
2.	*Tangible assets*	
	Plant and Machinery	1,02,000
	Fixtures	20,000
		1,22,000
3.	*Intangible assets*	
	Goodwill	36,000

(b) In the books of Partnership Firm

Partners' Capital Accounts

	P ₹	*Q* ₹	*R* ₹		*P* ₹	*Q* ₹	*R* ₹
To Plant and machinery account	3,000	2,000	1,000	By Balance b/d	50,000	30,000	20,000
To Equity shares in PQR Pvt. Ltd.	90,000	60,000	30,000	By Reserve fund	30,000	20,000	10,000
To 9% Preference shares in PQR Pvt. Ltd.	5,000		5,000	By Realization A/c (Profit on sale of business)	18,000	12,000	6,000
	98,000	62,000	36,000		98,000	62,000	36,000

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(c) Statement showing the final settlement between the Partners taking Q's capital as basis

	P	Q	R	Total
	₹	₹	₹	₹
Value of Equity Shares to be allotted, taking Q's capital as basis P's Capital = 60,000 × 3/2 R's Capital = 60,000 × 1/2	90,000	60,000	30,000	
Total Value of Equity Shares allotted to P,Q and R				1,80,000
9% Preference Shares to be allotted to P ₹ (95,000-90,000)	5,000			
9%Preference Shares to be allotted to R ₹ (35,000-30,000)			5,000	
Total Value of Preference Shares allotted to P and R				10,000
Total Purchase Consideration				1,90,000

Taking Q's capital as Basis, both P and R have ₹ 5,000 each as excess in their capital account balances. Since interest on capital is meant to compensate those whose capital is in excess of proportionate limits and since in the case of partners it is an appropriation of profit, it will be proper to give 9% preference shares to P and R for ₹ 5,000 each and the remaining amount of ₹ 1,80,000 in the form of Equity Shares to be divided among P, Q and R in the ratio 3:2:1. They will then share the company's profit in the ratio 3:2:1 after allowing preference dividend.

Working Notes:

1. Calculation of goodwill

	2010-11 ₹	2011-12 ₹	2012-13 ₹	2013-14 ₹	2014-15 ₹
Profits	10,000	(5,000)	18,000	27,000	30,000
Adjustment for abnormal loss in 2011-12	—	10,000	—	—	—
	10,000	5,000	18,000	27,000	30,000
Total Profit from 2010-11 to 2014-15					90,000
Average Profit (90,000 / 5)					18,000
Goodwill equal to 2 years' purchase					36,000

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2 Purchase consideration - Computation of Value placed on business:

	₹
Assets :	
Goodwill	36,000
Plant & Machinery	1,02,000
Fixtures	20,000
Stock	50,000
Sundry Debtors	30,000
	2,38,000
Less: Liabilities:	
Creditors	48,000
Purchase Consideration	1,90,000

4. Distinction between an ordinary partnership firm and an LLP

	Key Elements	*Partnerships*	*LLPs*
1	Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement	Created by Law
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes
6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
7	Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
9	Liability of Partners / Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission

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			by a partner.
10	Principal Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners

Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal in the following circumstances:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

5. Fair value of an option = ₹ 28

Difference between Fair value and Issue Price =₹ 28 – ₹ 25 = 3.

Number of employees accepting the offer = 400 employees x 50% = 200 employees

Number of shares issued = 200 employees x 100 shares/employee = 20,000 shares

Employee Compensation Expenses recognized in 2014-15 =20,000 shares x ₹ 3 = ₹ 60,000

Securities Premium A/c = ₹ 28 – 10 = ₹ 18 per share = 20,000 x 18 = ₹ 3,60,000

Journal Entry

Date	*Particulars*		*₹*	*₹*
30.04.2014	Bank (20,000 shares x ₹ 25)	Dr.	5,00,000	
	Employees compensation expense A/c	Dr.	60,000	
	To Share Capital			2,00,000
	To Securities Premium			3,60,000
	(Being stock purchase option accepted by 200 employees for 100 shares each at ₹ 25 per share on a Fair Value of ₹ 28 per share)			

Note: Employees compensation expenses amounting ₹ 60,000 will ultimately be charged to profit & loss account.

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6. **ABC Limited**

Balance Sheet as on June 30, 2014

Particulars	*Note No*	*Figures as at the end of current reporting period*
		₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	90,00,000
(b) Reserves and Surplus	2	1,92,50,000
(2) Non-Current Liabilities		
(a) Long-term borrowings		70,00,000
(3) Current Liabilities		
(a) Short-term provisions		1,80,00,000
Total		5,32,50,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		2,50,00,000
(2) Current assets		
(a) Cash and cash equivalents		12,50,000
(b) Other current assets		2,70,00,000
Total		5,32,50,000

Notes to Accounts

			₹
1.	**Share Capital**		
	9,00,000 Equity Shares of ₹10 each		90,00,000
2.	**Reserves and Surplus**		
	General Reserve	1,10,00,000	
	Add: Debenture Redemption Reserve transfer	70,00,000	
		1,80,00,000	
	Add: Profit on sale of investments	10,00,000	
		1,90,00,000	
	Less: Premium on redemption of debentures	(15,00,000)	1,75,00,000
	Securities Premium Account		17,50,000
			1,92,50,000

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Working Notes :

(i) Calculation of number of shares to be allotted :

Total number of debentures	1,50,000
Less: Number of debentures not opting for conversion	(50,000)
	1,00,000
25% of 1,00,000	25,000
Redemption value of 25,000 debentures @ 110	₹ 27,50,000

Number of Equity Shares to be allotted :

$= \frac{27,50,000}{27.50}$ = 1,00,000 shares of ₹ 10 each.

(ii) Calculation of cash to be paid :

	₹
Total Number of debentures	1,50,000
Less: number of debentures to be converted into equity shares	(25,000)
	1,25,000
Redemption value of 1,25,000 debentures @110	₹ 1,37,50,000

(iii) Cash and Bank Balance:

Balance before redemption	80,00,000
Add : Proceeds of investments sold	70,00,000
	1,50,00,000
Less : Cash paid to debenture holders	(1,37,50,000)
	12,50,000

Note: The premium on redemption of debentures can also be adjusted against Securities Premium Account.

7. **Journal Entries in the books of M Ltd.**

			Dr.	*Cr.*
			₹ in '000	*₹ in '000*
1	Bank A/c	Dr.	5,000	
	Profit and Loss A/c	Dr.	1,000	
	To Investment A/c			6,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			
2	Preference share capital A/c	Dr.	4,000	
	To Preference shareholders A/c			4,000
	(Being redemption of preference share capital at par)			

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3	Preference shareholders A/c	Dr.	4,000	
	To Bank A/c			4,000
	(Being payment made to preference shareholders)			
4	Revenue Reserve A/c	Dr.	4,600	
	To Capital redemption reserve A/c			4,600
	(Being creation of capital redemption reserve to the extent of nominal value of preference shares redeemed and amount of equity bought back i.e. 4,000 + 600)			
5	Equity share capital A/c	Dr.	600	
	Securities Premium A/c (Premium payable on buy-back)	Dr.	300	
	To Equity shares buy-back A/c			900
	(Being the amount due on buy-back of equity shares)			
6	Equity shares buy-back A/c	Dr.	900	
	To Bank A/c			900
	(Being payment made for buy-back of equity shares)			

Balance Sheet of the M Ltd. as on 1st April, 2015

		Notes No.	*₹ in '000*
Equity and Liabilities			
1	Shareholders funds		
	Share capital	1	5,400
	Reserves and Surplus	2	11,320
2	Non-current liabilities		
	Long term borrowings	3	500
3	Current liabilities		380
	Total		17,600

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Assets			
1	Non-current assets		
	(a) Fixed assets		5,500
	(b) Non-current investments	4	4,000
2	Current assets	5	8,100
	Total		17,600

Notes to Accounts

			₹ in '000	*₹ in '000*
1.	Share Capital			
	Authorized share capital:			10,000
	Issued, subscribed and fully paid up share capital:			
	5,40,000 Equity shares of ₹ 10 each, fully paid up			5,400
	(60,000 equity shares had been bought back and cancelled during the year)			
2.	Reserves and Surplus			
	Capital Reserves		20	
	Securities Premium	1,000		
	Less: Premium on buy-back of equity shares	(300)	700	
	Revenue Reserve	8,000		
	Less: Transfer to Capital Redemption Reserve	(4,600)	3,400	
	Capital Redemption reserve		4,600	
	Surplus (Profit & Loss Account)	3,600		
	Less: Loss on sale of investment	(1,000)	2,600	11,320
3.	Long term borrowings			
	10% Debentures			500
4.	Non-current investments			
	Balance			10,000
5	Current assets			
	Balance		8,000	
	Add: Cash received on sale of investment		5,000	
	Less: Payment made to equity shareholders for buy back of shares		(900)	
	Payment made to preference shareholders		(4,000)	8,100

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8. **When the benefit of firm underwriting is given to individual underwriters**

(i) **Total marked applications:**

M	N	O	P	
2,50,000	2,00,000	2,00,000	80,000	= 7,30,000

(ii) **Shares subscribed excluding firm underwriting**

Total applications	8,00,000	shares
Less : Marked applications	(7,30,000)	shares
Unmarked	70,000	

(iii) **Statement showing Liability of underwriters**

	M	*N*	*O*	*P*	*Total*
Gross liability	3,50,000	3,00,000	2,50,000	1,00,000	10,00,000
Less: Marked applications	(2,50,000)	(2,00,000)	(2,00,000)	(80,000)	(7,30,000)
	1,00,000	1,00,000	50,000	20,000	2,70,000
Less: Unmarked (in Gross Ratio)	(24,500)	(21,000)	(17,500)	(7,000)	(70,000)
	75,500	79,000	32,500	13,000	2,00,000
Less: Firm underwriting	(30,000)	(50,000)	40,000	(18,500)	(1,38,500)
	45,500	29,000	(7,500)	(5,500)	61,500
Less: Surplus of 'O' and 'P' allotted to					
M,& N (35:30)	7,000	6,000	7,500	5,500	–
Net liability	38,500	23,000	-	-	61,500

(iv) **Statement of underwriters' liability**

	M	*N*	*O*	*P*	*Total*
Firm	30,000	50,000	40,000	18,500	1,38,500
Others	38,500	23,000	-	-	61,500
TOTAL	68,500	73,000	40,000	18,500	2,00,000

(v) **Amounts due from underwriters**

	M	*N*	*O*	*P*	Total
Shares to be subscribed as per (iv) above	68,500	73,000	40,000	18,500	2,00,000
Amount due @ ₹ 60 per share	41,10,000	43,80,000	24,00,000	11,10,000	1,20,00,000

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Less: Commission due on shares underwritten	(10,50,000)	(9,00,000)	(7,50,000)	(3,00,000)	(30,00,000)
	30,60,000	34,80,000	16,50,000	8,10,000	90,00,000

(vi) Commission payable to underwriters

M	10,00,000 X 100 X 35% X 3% =	10,50,000
N	10,00,000 X 100 X 30% X 3% =	9,00,000
O	10,00,000 X 100 X 25% X 3% =	7,50,000
P	10,00,000 X 100 X 10% X 3% =	3,00,000

Journal Entry

	₹	₹
Bank A/c	5,70,00,000	
Underwriting Commission A/c Dr.	30,00,000	
To Equity share Application A/c		6,00,00,000

9. Journal Entries in the books of Platinum Ltd.

		₹	₹
	Bank A/c (1,00,000 x ₹ 10) Dr.	10,00,000	
	To Equity share capital A/c		10,00,000
	(Being money on final call received)		
	Equity share capital (₹ 50) A/c Dr.	75,00,000	
	To Equity share capital (₹ 40) A/c		60,00,000
	To Capital Reduction A/c		15,00,000
	(Being conversion of equity share capital of ₹ 50 each into ₹ 40 each as per reconstruction scheme)		
	Bank A/c Dr.	12,50,000	
	To Equity Share Capital A/c		12,50,000
	(Being new shares allotted at ₹ 40 each)		
	Trade payables A/c Dr.	12,40,000	
	To Equity share capital A/c		7,50,000
	To Bank A/c (4,90,000 x 70%)		3,43,000
	To Capital Reduction A/c		1,47,000
	(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)		

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	8% Debentures A/c	Dr.	3,00,000	
	12% Debentures A/c	Dr.	4,00,000	
	To Shiv A/c			7,00,000
	(Being cancellation of 8% and 12% debentures of Shiv)			
	Bank A/c	Dr.	1,00,000	
	To Shiv A/c			1,00,000
	(Being new debentures subscribed by Shiv)			
	Shiv A/c	Dr.	8,00,000	
	To 15% Debentures A/c			6,00,000
	To Capital Reduction A/c			2,00,000
	(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
	8% Debentures A/c	Dr.	1,00,000	
	12% Debentures A/c	Dr.	2,00,000	
	To Ganesh A/c			3,00,000
	(Being cancellation of 8% and 12% debentures of Ganesh)			
	Ganesh A/c	Dr.	3,00,000	
	To 15% Debentures A/c			2,50,000
	To Capital Reduction A/c			50,000
	(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
	Land and Building (51,84,000 – 42,70,000)	Dr.	9,14,000	
	Inventories	Dr.	30,000	
	To Capital Reduction A/c			9,44,000
	(Being value of assets appreciated)			
	Outstanding expenses A/c	Dr.	10,60,000	
	To Bank A/c			10,60,000
	(Being outstanding expenses paid in cash)			
	Capital Reduction A/c	Dr.	33,41,000	
	To Machinery A/c			1,30,000
	To Computers A/c			1,20,000

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	To Trade receivables A/c		1,09,000
	To Goodwill A/c		22,00,000
	To Profit and Loss A/c		7,82,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)		
	Capital Reserve A/c Dr.	5,00,000	
	To Capital Reduction A/c		5,00,000
	(Being debit balance of capital reduction account adjusted against capital reserve)		

Balance Sheet (as reduced) as on 31.3.2014

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	80,00,000
2		**Non-current liabilities**		
	a	Long-term borrowings	2	8,50,000
		Total		**88,50,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	3	63,04,000
2		**Current assets**		
	a	Inventories		3,50,000
	b	Trade receivables		9,81,000
	c	Cash and cash equivalents		12,15,000
		Total		**88,50,000**

Notes to accounts

			₹
1.	**Share Capital**		
	2,00,000 Equity shares of ₹ 40		80,00,000

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2.	**Long-term borrowings**		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	**Tangible assets**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

1. **Cash at Bank Account**

	Particulars	₹		*Particulars*	₹
To	Balance b/d	2,68,000	By	Trade Creditors A/c	3,43,000
To	Equity Share capital A/c	10,00,000	By	Outstanding expenses A/c	10,60,000
To	Equity Share Capital A/c	12,50,000	By	Balance c/d (bal. fig.)	12,15,000
To	Shiv A/c	1,00,000			
		26,18,000			26,18,000

2. **Capital Reduction Account**

	Particulars	₹		*Particulars*	₹
To	Machinery A/c	1,30,000	By	Equity Share Capital A/c	15,00,000
To	Computers A/c	1,20,000	By	Trade Creditors A/c	1,47,000
To	Trade receivables A/c	1,09,000	By	Shiv A/c	2,00,000
To	Goodwill A/c	22,00,000	By	Ganesh A/c	50,000
To	Profit and Loss A/c	7,82,000	By	Land & Building	9,14,000
			By	Inventories	30,000
			By	Capital Reserve A/c	5,00,000
		33,41,000			33,41,000

10. LEDGER OF BETTER LIMITED

Fixed Assets Account

		₹			₹
To	Balance b/d	15,00,000	By	Realisation A/c (transfer)	15,00,000

Current Assets Account

		₹		₹
To	Balance b/d	5,00,000	By Realisation A/c (transfer)	5,00,000

Liabilities Account

		₹			₹
To	Realisation A/c	2,00,000	By	Balance b/d	2,00,000

Realisation Account

		₹			₹
To	Fixed Assets A/c	15,00,000	By	Liabilities A/c	2,00,000
To	Current Assets A/c	5,00,000	By	Best Limited	15,00,000
				(Purchase Consideration)	
			By	Shareholders' A/c	3,00,000
				(Loss on Realisation)	
		20,00,000			20,00,000

Share Capital Account

		₹			₹
To	Sundry shareholders		By	Balance b/d	10,00,000
	A/c - (transfer)	15,00,000	By	Reserves & Surplus A/c	
				(Bonus issue)	5,00,000
		15,00,000			15,00,000

Reserves & Surplus Account

		₹			₹
To	Share Capital (Bonus issue)	5,00,000	By	Balance b/d	8,00,000
To	Sundry Shareholders	3,00,000			
		8,00,000			8,00,000

Best Ltd.

		₹			₹
To	Realisation A/c - Purchase		By	Shares in Best Ltd	15,00,000
	Consideration	15,00,000			
		15,00,000			15,00,000

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Shares in Best Ltd.

		₹			₹
To	Best Ltd.	15,00,000	By	Sundry Shareholders A/c	15,00,000

Sundry Shareholders Account

		₹			₹
To	Realisation A/c (Loss)	3,00,000	By	Share Capital A/c	15,00,000
			By	Reserves & Surplus A/c	3,00,000
To	Share in Best Ltd.	15,00,000			
		18,00,000			18,00,000

Journal of Best Ltd.

2014			Dr. ₹	Cr. ₹
Apr. 1	Fixed Assets A/c	Dr.	15,00,000	
	Current Assets A/c	Dr.	5,00,000	
	To Liabilities A/c			2,00,000
	To Liquidator of Better Ltd.			15,00,000
	To Capital Reserve A/c			3,00,000
	(Assets & Liabilities of Better Ltd. taken over for an agreed purchase consideration of ₹ 15,00,000 as per agreement dated....)			
	Liquidator of Better Ltd.	Dr.	15,00,000	
	To Share Capital A/c			10,00,000
	To Securities Premium A/c			5,00,000
	(Discharge of Purchase consideration by the issue of equity shares of ₹ 10,00,000 at a premium of ₹ 50 per share as per agreement)			
	Trade payables A/c	Dr.	1,00,000	
	To Trade receivables A/c			1,00,000
	(Amount due from Better Ltd., and included in its creditors taken over,			

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cancelled against own Trade receivables)			
Capital Reserve A/c	Dr.	10,000	
To Current Asset (Stock) A/c			10,000
(Unrealized profit on stock included in current assets of Better Ltd. written off to Reserve Account)			

Working Note :

Calculation of Purchase consideration:

Issued Capital of Better Ltd. (after bonus issue) at ₹ 100 per share ₹ 15,00,000 Purchase consideration has been discharged by Best Ltd. by the issue of shares for ₹ 10,00,000 at a premium of ₹ 5,00,000. This gives the value of ₹ 150 per share.

Balance Sheet of Best Ltd. (After absorption)

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	30,00,000
	b	Reserves and Surplus	2	17,90,000
2		**Current liabilities**		21,00,000
		Total		**68,90,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	3	40,00,000
	b	Non-current investments		5,00,000
2		**Current assets** (24,00,000 – 10,000)		23,90,000
		Total		**68,90,000**

Notes to accounts

		₹
1 **Share Capital**		
Equity share capital		
Issued & Subscribed		

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	30,000 shares of ₹ 100 (Of the above 10,000 shares have been issued for consideration other than cash)		30,00,000
	Total		30,00,000
2	**Reserves and Surplus**		
	Capital Reserve (3,00,000 – 10,000)		2,90,000
	Securities Premium		5,00,000
	Other reserves and surplus		10,00,000
	Total		17,90,000
3	**Tangible assets**		
	Fixed Assets	25,00,000	
	Acquired during the year	15,00,000	40,00,000
	Total		40,00,000

11. Liquidator's Statement of Account

	Receipts		₹		*Payments*		₹
To	Assets realised -			By	Liquidation expenses		57,250
	Cash & cash equivalent	1,00,000		By	Liquidator's Remuneration		59,750
	Plant &Machinery	5,00,000		By	Preferential creditors:		
	Inventories	1,50,000			Taxes	12,500	
	Trade receivables	2,00,000	9,50,000		Wages to workers	60,000	72,500
To	Sale proceeds of land & Building	3,00,000		By	Payment to Debenture holders:		
	Less: Applied to	1,00,000	2,00,000		Debentures	2,50,000	
	discharge bank overdraft				Interest due	12,500	2,62,500
To	Call on 7,500 equity shareholders of ₹ 60 paid up @ ₹ 12.45 per share		93,375	By	Trade payables		2,25,000
				By	Preference shareholders:		
					Preference capital	5,00,000	
					Arrear of Dividend	60,000	5,60,000
				By	Equity shareholders – refund on 2,500 equity shares of		
					₹ 75 paid up @ 2.55 per share		6,375
			12,43,375				12,43,375

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Working Notes:

(i) **Computation of Liquidator's remuneration**

	₹
Assets realized	
Plant and Machinery	5,00,000
Inventories	1,50,000
Trade receivables	2,00,000
Land and Building	3,00,000
Total	11,50,000
Commission @ 5% on assets realized (A)	57,500
Liabilities discharged	
Trade payables	2,25,000
Total	2,25,000
Commission @ 1% on liabilities discharged (B)	2,250
Total (A+B)	59,750

(ii) **Calls from Partly paid shares**

	₹
Total receipts before considering call money	
Cash and cash equivalents	1,00,000
Plant and Machinery	5,00,000
Inventories	1,50,000
Trade receivable	2,00,000
Land and Building (after discharge of Bank overdraft)	2,00,000
Total	11,50,000
Total payments before final payment to equity Shareholders	
Liquidator's remuneration	59,750
Liquidation expenses	57,250
Preferential creditors	72,500
Payment to Debenture holders	2,62,500
Trade payables	2,25,000
Payment to Preference shareholders	5,60,000
Total	12,37,000
Surplus/(Deficit) from above before calls made on equity shares	(87,000)

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Nominal call to be made:

2,500 equity shares @ ₹ 25 per share	62,500
7,500 equity shares @ ₹ 40 per share	3,00,000
Total	3,62,500
Surplus cash balance after notional call	2,75,500
Total number of equity shares for distribution of surplus cash (2,500 + 7,500)	10,000
Surplus cash per equity share	27.55
Amount of refund on ₹ 75 per share paid up (27.55-25)	2.55
Amount of call on ₹ 60 per share paid up (40-27.55)	12.45

12. **Form B – RA (Prescribed by IRDA)**

Gemini Insurance Co. Ltd

Revenue Account for the year ended 31st March, 2014
Fire and Marine Insurance Businesses

	Schedule	*Fire Current Year*	*Marine Current Year*
		₹	₹
Premiums earned (net)	1	9,65,000	3,20,000
Profit / (Loss) on sale / redemption of investments		—	—
Others (to be specified)			
Interest, Dividends and Rent – Gross		—	—
Total (A)		9,65,000	3,20,000
Claims incurred (net)	2	1,90,000	2,03,000
Commission	3	92,000	46,000
Operating expenses related to Insurance business	4	1,60,000	1,10,000
Total (B)		4,42,000	3,59,000
Operating Profit from Fire / Marine Insurance business (A-B)		5,23,000	(39,000)

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Schedules forming part of Revenue Account

Schedule –1

Premiums earned (net)		*Fire Current Year*	*Marine Current Year*
		₹	₹
Premiums from direct business written		10,70,000	7,95,000
Less: Premium on reinsurance ceded		60,000	35,000
Total Premium earned		10,10,000	7,60,000
Less: Change in provision for unexpired risk		45,000	4,40,000
		9,65,000	3,20,000
Schedule – 2			
Claims incurred (net) (W.N. 1)		1,90,000	2,03,000
Schedule – 3			
Commission			
Commission paid direct		92,000	46,000
Schedule – 4			
Operating expenses related to insurance business			
Expenses of Management (W.N. 2)		1,60,000	1,10,000

Form B-PL

Gemini Insurance Co. Ltd.

Profit and Loss Account for the year ended 31st March, 2014

Particulars	*Schedule*	*Current Year*	*Previous Year*
		₹	₹
Operating Profit/(Loss)			
(a) Fire Insurance		5,23,000	
(b) Marine Insurance		(39,000)	
(c) Miscellaneous Insurance		-	
Income From Investments			
Interest, Dividend & Rent–Gross		2,97,000	
Other Income (To be specified)			
Total (A)		7,81,000	

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Provisions (Other than taxation)			
Depreciation		1,00,000	
Other Expenses –Director's Fee		1,84,000	
Total (B)		2,84,000	
Profit Before Tax		4,97,000	
Provision for Taxation		1,50,000	
Profit After Tax		3,47,000	

Working Notes:

		Fire	*Marine*
		₹	₹
1.	Claims under policies less reinsurance		
	Claims paid during the year	2,30,000	1,84,000
	Add: Outstanding on 31st March, 2014	23,000	34,000
		2,53,000	2,18,000
	Less : Outstanding on 1st April, 2013	63,000	15,000
		1,90,000	2,03,000
2.	Expenses of management		
	Expenses paid during the year	1,40,000	1,00,000
	Add: Outstanding on 31st March, 2014	20,000	10,000
		1,60,000	1,10,000
3.	Premiums less reinsurance		
	Premiums received during the year	10,00,000	7,50,000
	Add: Outstanding on 31st March, 2014	70,000	45,000
		10,70,000	7,95,000
	Less : Reinsurance premiums	60,000	35,000
		10,10,000	7,60,000

4. Reserve for unexpired risks is 50% of net premium for fire insurance and 100% of net premium for marine insurance. Reserve for unexpired risks for fire insurance = ₹ 10,10,000 X 50% = ₹ 5,05,000. Opening Balance in reserves for unexpired risk for fire insurance was ₹ 4,60,000. Hence, additional transfer to reserve for fire insurance in the year will be ₹ 45,000. On similar basis of calculation, the additional transfer to reserve for marine insurance will be ₹ 4,40,000.

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5. **Provision for taxation account**

	₹		₹
31.3.2014 To Bank A/c (taxes paid)	1,40,000	1.4.2013 By Balance b/d	1,95,000
31.3.2014 To Balance c/d	2,05,000	31.3.2014 By P & L A/c (Bal Fig)	1,50,000
	3,45,000		3,45,000

13. **TOP Bank Limited**

Profit and Loss Account for the year ended 31st March, 2014

		Schedule	*Year ended 31.03. 2014*
			(₹ in '000s)
I.	**Income:**		
	Interest earned	13	5923.18
	Other income	14	728.00
	Total		6,651.18
II.	**Expenditure**		
	Interest expended	15	3259.92
	Operating expenses	16	768.46
	Provisions and contingencies (960+210+900)		2,070.00
	Total		6,098.38
IIII.	**Profits/Losses**		
	Net profit for the year		552.80
	Profit brought forward		nil
			552.80
IV.	**Appropriations**		
	Transfer to statutory reserve (25%)		138.20
	Balance carried over to balance sheet		414.60
			552.80

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		Year ended 31.3. 2014 (₹ in '000s)
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	5923.18
		5923.18
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	304
II.	Profit on sale of investments	320
III.	Rent received	104
		728
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	3259.92
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees	320
II.	Rent, taxes and lighting	144
III.	Depreciation on bank's properties	48
IV.	Director's fee, allowances and expenses	48
V.	Auditors' fee	28
VI.	Law (statutory) charges	44
VII.	Postage and telegrams	96.46
VIII.	Preliminary expenses	40
		768.46

Working Note:

	(₹ in '000s)
Interest/discount	5,929.18
Add: Rebate on bills discounted on 31.3. 2013	19.00
Less: Rebate on bills discounted on 31.3. 2014	25.00
	5,923.18

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14. Calculation of correct Departmental Profits

	Department P (₹)	*Department S (₹)*	*Department Q (₹)*
Profit after charging Manager's Commission	90,000	60,000	45,000
Add: Manager's Commission (1/9)	10,000	6,667	5,000
	1,00,000	66,667	50,000
Less: Unrealised profit on Stock (WN)	(5,426)	(21,000)	(2,727)
Profit Before Manager's Commission	94,574	45,667	47,273
Less: Manager's Commission 10%	(9,457)	(4,567)	(4,727)
Correct Profit after Manager's Commission	85,117	41,100	42,546

Working Notes:

	Department P (₹)	*Department S (₹)*	*Department Q (₹)*	*Total (₹)*
Unrealized Profit of:				
Department P	-	25/125X18,000 =3,600	15/115X14,000 =1,826	5,426
Department S	20/100X48,000 =9,600	-	30/100X38,000 =11,400	21,000
Department Q	20/120X12,000 =2,000	10/110X8,000 =727		2,727

15. (a) Journal entry in the books of Head Office

Date	*Particulars*	*Dr.*	*Cr.*
		₹	₹
30.4.2014	W.B. Branch Account	Dr. 45,000	
	To A.P. Branch Account		5,000
	To M.P. Branch Account		10,000
	To U.P. Branch Account		30,000
	(Being adjustment entry passed by head office in respect of inter-branch transactions for the month of April, 2014)		

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Working Note:

Inter – Branch transactions

		A.P	*M.P.*	*W.B.*	*U.P.*
		₹	₹	₹	₹
A.	**A.P Branch**				
(1)	Received goods	55,000 (Dr.)	30,000 (Cr.)		25,000 (Cr.)
(2)	Sent goods	50,000 (Cr.)		20,000 (Dr.)	30,000 (Dr.)
(3)	Received Bills receivable	10,000 (Dr.)		10,000 (Cr.)	
(4)	Sent acceptance	30,000 (Cr.)	10,000 (Dr.)		20,000 (Dr.)
B.	**M.P. Branch**				
(5)	Received goods	10,000 (Cr.)	30,000 (Dr.)		20,000 (Cr.)
(6)	Sent cash	20,000 (Dr.)	30,000 (Cr.)		10,000 (Dr.)
C.	**W.B. Branch**				
(7)	Received goods			40,000 (Dr.)	40,000 (Cr.)
(8)	Sent cash and acceptances			25,000 (Cr.)	25,000 (Dr.)
D.	**U.P. Branch**				
(9)	Sent cash		10,000(Dr.)	20,000 (Dr.)	30,000 (Cr.)
		5,000 (Cr.)	10,000 (Cr.)	45,000 (Dr.)	30,000 (Cr.)

16. (a) (1) **Users of financial statements:**

Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public

(2) **Qualitative Characteristics of Financial Statements:**

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(3) **Elements of Financial Statements:**

Asset, Liability, Equity, Income/Gain and Expense/Loss

(b) **Fundamental Accounting Assumptions:**

Accrual, Going Concern and Consistency

17. (a) Para 8.3 of AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions

existing at the balance sheet date. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.2014. Therefore, loss occurred due to earthquake is not to be recognised in the financial year 2013-2014.

However, according to para 8.6 of the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the earthquake has caused major destruction; therefore fundamental accounting assumption of going concern is called upon.

Hence, the fact of earthquake together with an estimated loss of ₹ 25 lakhs should be disclosed in the Report of the Directors for the financial year 2013-2014.

(b) As per para 31 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

(i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

(ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy

18. (a) The financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures described in paragraphs 8 to 16 of AS 11 (Revised 2003). The individual items in the financial statements of a foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself.

Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of transaction. For practical reasons, a rate that approximates the actual rate at the date of transaction is often used, for example, an average rate for a week or a month may be used for all transactions in each foreign currency during the period. The foreign currency monetary items (for example cash, receivables, payables) should be reported using the closing rate at each balance sheet date. Non-monetary items (for example, fixed assets, inventories, investments in equity shares) which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange date at the date of transaction. Thus the cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If the fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation. The cost of inventories

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is translated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realizable value is determined which is generally closing rate.

Exchange difference arising on the translation of the financial statements of integral foreign operation should be charged to profit and loss account. Exchange difference arising on the translation of the financial statement of foreign operation may have tax effect which should be dealt as per AS 22 'Accounting for Taxes on Income'.

Thus, the treatment by the management of translating all assets and liabilities; income and expenditure items in respect of foreign branches at the prevailing rate at the year end and also the treatment of resultant exchange difference is not in consonance with AS 11 (Revised 2003).

(b) **Journal Entries**

Year	*Particulars*		*₹ in lakhs (Dr.)*	*₹ in lakhs (Cr.)*
1	Fixed Asset Account	Dr.	25	
	To Bank Account			25
	(Being fixed asset purchased)			
	Bank Account	Dr.	10	
	To Fixed Asset Account			10
	(Being grant received from the government reduced the cost of fixed asset)			
	Depreciation Account (W.N.1)	Dr.	2	
	To Fixed Asset Account			2
	(Being depreciation charged on Straight Line method (SLM))			
	Profit & Loss Account	Dr.	2	
	To Depreciation Account			2
	(Being depreciation transferred to Profit and Loss Account at the end of year 1)			
2	Fixed Asset Account	Dr.	6	
	To Bank Account			6
	(Being government grant on asset partly refunded which increased the cost of fixed asset)			

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	Depreciation Account (W.N.2)	Dr.	3.5	
	To Fixed Asset Account			3.5
	(Being depreciation charged on SLM on revised value of fixed asset prospectively)			
	Profit & Loss Account	Dr.	3.5	
	To Depreciation Account			3.5
	(Being depreciation transferred to Profit and Loss Account at the end of year 2)			

Working Notes:

1. Depreciation for Year 1

	₹ in lakhs
Cost of the Asset	25
Less: Government grant received	(10)
	15
Depreciation [15-5]/5	2

2. Depreciation for Year 2

	₹ in lakhs
Cost of the Asset	25
Less: Government grant received	(10)
	15
Less: Depreciation for the first year [15-5]/5	2
	13
Add: Government grant refundable	6
	19
Depreciation for the second year [19-5]/4	3.5

19. (a) (i) Computation of average accumulated expenses

		₹
₹ 1,60,000 x 12 / 12	=	1,60,000
₹ 2,70,000 x 8/ 12	=	1,80,000
₹ 4,20,000 x 5 / 12	=	1,75,000
₹ 1,50,000 x 1 / 12	=	12,500
		5,27,500

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(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (₹)	*Rate of interest*		*Amount of interest (₹)*
3,00,000	12%	=	36,000
7,00,000	14%	=	98,000
10,00,000			1,34,000
Weighted average rate of interest {(1,34,000/ 10,00,000) x 100}		=	13.40% (approx)

(iii) Interest on average accumulated expenses

		₹
Specific borrowings (₹ 2,00,000 x 11%)	=	22,000
Non-specific borrowings (₹ 3,27,500* x 13.40%)	=	43,885
Amount of interest to be capitalized	=	65,885

(₹ 5,27,500 – ₹ 2,00,000)

(iv) Total expenses to be capitalized for building

	₹
Cost of building ₹ (1,60,000+2,70,000+4,20,000+1,50,000)	10,00,000
Add: Amount of interest to be capitalised	65,885
	10,65,885

(v) Journal Entry

Date	*Particulars*		*Dr. (₹)*	*Cr. (₹)*
31.12.2014	Building account	Dr.	10, 65,885	
	To Bank account			10, 65,885
	(Being amount of cost of building and borrowing cost thereon capitalized)			

(b) (i) Leases are classified based on the extent to which risks and rewards incident to ownership of a leased asset lie with the Lessor or the Lessee.

- Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return due to changing economic conditions.

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- Rewards may be represented by the expectation of profitable operation over the economic life of the asset and of gain from appreciation in value or realisation of residual value.

As per AS 19 "Accounting for Lease", Lease may be of two types: a) Finance Lease b) Operating Lease.

Finance Lease is a lease which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership.

Operating lease is a lease which does not transfers substantially all the risks and rewards incidental to ownership. To be precise, it is a lease other than "Financial Lease".

(ii) According to para 11 of AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee. In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	*Minimum Lease Payment* ₹	*Internal rate of return*	*Present value* ₹
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	7,50,000*	0.5718	4,28,850
Total	26,25,000		18,55,850

Present value of minimum lease payments ₹18,55,850 is less than fair value at the inception of lease i.e. ₹ 20,00,000, therefore, the lease liability should be recognized at ₹18,55,850 as per AS 19.

**Minimum Lease Payment of 4th year includes guaranteed residual value amounting ₹1,25,000.*

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20. (a) No. of Bonus shares issued as on 1.1.2015

On existing shares (50,00,250 x ½) 25,00,125 shares

On convertible debentures as per SEBI Guidelines on Bonus Issue

(1,00,000 debentures x 10 shares x ½) 5,00,000 shares

Basic Earnings per share for the year 2014-15 =

$$\frac{\text{Net profit for the year ended 31.3.2015}}{\text{Weighted average number of equity share as on 31.3.2015}}$$

$$\frac{₹\ 1,00,25,000}{(50,00,250 + 25,00,125 + 5,00,000)} = ₹\ 1.25$$

Adjusted earnings per share for the year 2013-14

$$= \frac{₹\ 75,50,000}{(50,00,250 + 25,00,125 + 5,00,000)} = ₹\ 0.94$$

For Diluted EPS

Interest expense for the current year = ₹ 12,00,000

Tax relating to interest expense (30%) =₹ 3,60,000

Adjusted net profit for the current year =₹ 1,00,25,000 + (12,00,000 - 3,60,000) x 3/12

=₹ 1,02,35,000

No. of equity shares resulting from conversion of debentures

= 1,00,000 x 10 shares = 10,00,000

No. of equity shares used to compute diluted earnings per share

= 50,00,250 + 25,00,125 + 5,00,000 + (10,00,000 x 3/12)

= 50,00,250 + 25,00,125 + 5,00,000 + 2,50,000

= 82,50,375 shares

Diluted earnings per share = 1,02,35,000/82,50,375 = ₹ 1.24

Note: As per AS 20, bonus shares issued to existing shareholders and to convertible debenture holders (on conversion of debentures into shares) are an issue without consideration. Therefore, it is treated as if it had occurred prior to the beginning of the year 2013- 14, the earliest period reported.

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(b) As per Para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Therefore, the manager cannot defer the expenditure write off to future years.

Hence, the expenses amounting ₹ 20 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2015.

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Applicability of Pronouncements/Legislative Amendments/Circulars etc. for November, 2015 – Intermediate (IPC) Examination

Paper 5: Advanced Accounting

Accounting Standards

AS 4	:	Contingencies and Events occurring after the Balance Sheet Date
AS 5	:	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 11	:	The Effects of Changes in Foreign Exchange Rates (Revised 2003)
AS 12	:	Accounting for Government Grants
AS 16	:	Borrowing Costs
AS 19	:	Leases
AS 20	:	Earnings Per Share
AS 26	:	Intangible Assets
AS 29	:	Provisions, Contingent Liabilities and Contingent Assets.

Note Regarding Applicability for Paper 1 and Paper 5:

The relevant notified Sections of the Companies Act, 2013 up to 31st March, 2015 and for other legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 30th April, 2015 will be applicable for November, 2015 Examination

Non-Applicability of Ind ASs for November, 2015 Examination:

The Ministry of Corporate Affairs has notified Roadmap for applicability of Indian Accounting Standards (Ind AS) vide Notification No. G.S.R…….(E) dated 16 February, 2015, for compliance by the class of companies specified in the said roadmap. The notification has been uploaded on www.mca.gov.in along with the thirty nine (39) Indian Accounting Standards (Ind AS). **Students may note that these Ind ASs are not applicable for November, 2015 Examination.**

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