PAPER – 1 : ACCOUNTING

QUESTIONS

Preparation of Financial Statements of Companies

1. (a) A company can declare and pay dividend out of profit available for distribution. Interpret the distributable profit.

   A company has earned profit before depreciation ₹ 80 lakhs, depreciation as per books is ₹ 26 lakhs and depreciation as per section 205 of the Companies Act works out to ₹ 62 lakhs. Compute the maximum amount that can be paid as dividend for the relevant accounting year.

   (b) A joint stock company, earning adequate profits, has four part-time directors and a whole time director. What is the maximum managerial remuneration it can pay to its (i) Part-time directors taken together and (ii) to wholetime director? What will be your answer if the company had only part-time directors and no whole-time director?

Cash flow Statement

2. From the following summarized cash book of Z Ltd., prepare Cash Flow Statement for the year ended 31st March, 2011 in accordance with AS 3 (Revised), using the direct method:

		₹ in lakhs
Cash and bank balances on 1st April, 2010		10
Receipts from customers		560
Issue of equity shares		60
Sale of land and building		20
		650
Payments to suppliers	400	
Purchase of machinery	55	
Wages and salaries paid	20	
Payments for overhead expenses	40	
Taxation	35	
Dividend	10	
Repayment of Bank Loan	60	(620)
Cash and bank balances on 31st March, 2011		30

The company does not have any cash equivalents.

Profit or Loss Prior to Incorporation

3. A firm which was carrying on business from 1st January, 2011, gets itself incorporated as a company on 1st May, 2011. The first accounts are drawn upto 30th September, 2011. The gross profit for the period is ₹ 56,000.

   The general expenses are ₹ 14,220; directors fees ₹ 12,000 per annum; formation expenses ₹ 1,500. Rent upto 30th June was ₹ 1,200 per annum, after which it was increased to ₹ 3,000 per annum. Salary of the Manager, who upon incorporation of the company was made a Director, was ₹ 6,000 per annum. His remuneration thereafter was included in the above figure of fees to directors.

   Give profit and loss account showing pre and post-incorporation profits. The net sales were ₹ 8,20,000, the monthly average of which for the first four months of 2011 being one-half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored.

Accounting for Bonus Issue

4. Lavish Limited is a company listed on the Bombay Stock Exchange (BSE). The company is intending to make a bonus issue to all its shareholders to the best extent possible. The Capital Structure & Reserves position of the company as on 31-03-2011 is as under:

	₹
Authorised Capital	
10,00,000 Equity shares of ₹ 10 each (Class A shares)	1,00,00,000
5,00,000 Equity shares of ₹ 5 each (Class B shares)	25,00,000
Issued, Subscribed & Paid-up Capital	
10,00,000 Equity Shares of ₹ 10 each fully paid (Class A shares)	1,00,00,000
5,00,000 Equity Shares of ₹ 5 each ₹ 2.50 paid up (Class B shares)	12,50,000
Reserves & Surplus	
Securities Premium Account	1,25,00,000
Capital Redemption Reserve Account	25,25,000
Capital Reserve Account	50,00,000
General Reserve	1,40,50,000
Profit & Loss Account	21,75,000
Secured Loans	
10,00,000, 8% FCD (Fully Convertible Debentures) of ₹ 10 each	1,00,00,000

The following information is also furnished:

(a) The Class A equity shares were issued in 2005 to shareholders of Poor Ltd. at a premium of ₹ 10 per share in lieu of their shareholdings in Poor Ltd. as per scheme of Amalgamation approved by the court.

(b) The Class B equity shares of ₹ 5 each on which ₹ 2.50 is paid up were issued at a premium of ₹ 5 each.

(c) Capital Redemption Reserve account represents profits transferred consequent to redemption of the preference shares of the company.

(d) The FCDs are due for conversion to fully paid class A equity shares of ₹ 10 each 3 months from the date of Balance Sheet (31-03-2011) in the ratio of 1 : 1.

(e) Capital Reserve represents surplus on revaluation of the company's land at Mumbai.

You are required to compute the maximum amount that can be capitalized in the form of Bonus shares of each class of shareholders and also give your advice to Lavish Ltd. on the other formalities it has to go through to complete the Bonus issue.

Amalgamation of Companies

5. The Balance Sheets of Rahul Ltd. and Rohit Ltd. as at 31st March, 2011 were as under:

Liabilities	*Rahul Ltd.*	*Rohit Ltd.*	*Assets*	*Rahul Ltd.*	*Rohit Ltd.*
	₹	₹		₹	₹
Share Capital in Equity Shares of					
₹ 10 each	3,75,000	3,00,000	Fixed Assets	4,75,000	2,75,000
Reserves	2,25,000	25,000	Current Assets:		
7% Debentures	-	1,00,000	Stock	1,25,000	75,000
Creditors	1,40,000	1,25,000	Debtors	1,50,000	1,00,000
Provision for Taxation	60,000	25,000	Bank	50,000	1,25,000
	8,00,000	5,75,000		8,00,000	5,75,000

It was agreed that Rahul Ltd. should absorb Rohit Ltd. as at 31-3-2011 on the basis of the following information and adjustments:

(i) The adjusted profits for the last three years are:

	Rahul Ltd. ₹	Rohit Ltd. ₹
Year ending 31-3-2011	2,25,000	1,50,000
Year ending 31-3-2010	2,40,000	1,35,000
Year ending 31-3-2009	2,35,000	90,000

(ii) The shares of the companies were to be valued on net assets basis, subject to goodwill of Rohit Ltd. being taken at one year's purchase of average profits of three years and no goodwill to be taken for Rahul Ltd.

(iii) 7% Debentureholders are to be repaid on 31-3-2011 at par by Rohit Ltd.

(iv) The fixed assets of Rahul Ltd. are to be valued at ₹ 6,25,000.

(v) Cost of absorption of ₹ 5,000 is met by Rahul Ltd.

You are required to calculate the ratio of exchange of shares and draw up resulting Balance Sheet of Rahul Ltd. after absorpition.

Internal Reconstruction

6. The Balance Sheet of Weak Ltd. as on 31st March, 2011 was as under:

Liabilities	₹	*Assets*	₹
Share Capital:		Goodwill	2,00,000
20,000 Equity Shares of ₹ 100		Plant & Machinery	18,00,000
each fully paid	20,00,000	Inventories	3,00,000
10,000, 7% Preference		Debtors	7,50,000
Shares of ₹ 100 each	10,00,000	Cash & Bank Balance	1,50,000
Creditors	7,00,000	Profit & Loss A/c	7,00,000
Rich Bank overdraft	3,00,000	Preliminary Expenses	1,00,000
	40,00,000		40,00,000

The following information is furnished to you:

(1) Preference dividend remains in arrear for 2 years.

(2) Due to adverse performance, the company decided an Internal Restructuring by writing off all losses, intangibles & implementing the following scheme:

(i) Creditors agree to forego 50% of their claims.

(ii) Preference shareholders waive their right to arrears of dividend and agree to reduce their capital by 20% by reducing the nominal value of their shares in consideration for an yield of 9% on their shares post restructuring, provided the sacrifice of equity shareholders is at least 51%.

(iii) Rich Bank agrees to convert the overdraft into a term loan to the extent of ₹ 2,25,000 and balance to be continued as overdraft.

(iv) Plant & Machinery to be devalued by ₹ 3,00,000.

(v) Debtors to the extent of ₹ 3,50,000 are not recoverable.

(vi) Equity shareholders agree to accept shares at lesser nominal value as may be required.

You are required to calculate/prepare:

1. Total sacrifice by the shareholders of Weak Ltd.
2. Share of loss by each class of shareholders.
3. New share capital post the restructuring scheme.
4. Working capital of the restructured entity.
5. A Balance Sheet post restructuring.

Average Due Date

7. Steady, a partner in a firm called 'Ready, Steady and Go' withdraws the following amounts for the year ending on 31st December, 2011. He is to be charged interest on drawings @ 10% p.a. The details of his drawings are:

2011	₹	*2011*	₹
31 January	1,500	31 July	2,500
28 February	1,000	31 August	1,500
31 March	1,600	30 September	1,200
30 April	2,000	31 October	1,000
31 May	1,400	30 November	1,800
30 June	700	31 December	3,160

Calculate the amount of interest on drawings chargeable to Steady. The average due date may be calculated in months.

Account Current

8. The following are the transactions that took place between G and H during the period from 1st October, 2010 to 31st March, 2011:

2010		₹
Oct.1	Balance due to G by H	3,000
Oct. 18	Goods sold by G to H	2,500
Nov. 16	Goods sold by H to G (invoice dated November, 26)	4,000

Dec.7.	Goods sold by H to G (invoice dated December, 17)	3,500
Jan. 3	Promissory note given by G to H, at three months	5,000
Feb. 4	Cash paid by G to H	1,000
Mar. 21	Goods sold by G to H	4,300
Mar.28	Goods sold by H to G (invoice dated April, 8)	2,700

Draw up an Account Current upto March 31st, 2011 to be rendered by G to H, charging interest @10% per annum. Interest is to be calculated to the nearest rupee.

Self Balancing Ledgers

9. M/s Independent keeps its books on sectional balancing system. Prepare the Total Debtors and Total Creditors accounts in the General Ledger for the year ended 31st December, 2011.

	₹
Debtors' Balance – 1st January 2011 (Dr.)	20,500
Debtors' Balance – 1st January 2011 (Cr.)	150
Creditors' Balance – 1st January 2011 (Cr.)	15,000
Creditors' Balance – 1st January 2011 (Dr.)	100
Cash paid to creditors	7,600
Discount received thereon	200
Cash received from debtors in full settlement of claim of ₹ 12,410	12,000
Purchases	8,000
Sales returns	80
Returns to suppliers	170
Bad debts	600
Interest charged to debtors	20
Sales	9,000
Cash refunded to debtors	500
Bills Payable accepted (including renewals)	600
Bills Payable withdrawn (upon renewal)	300
Interest on bills payable renewed	15
Bills Receivable received	3,000
Bills Receivable endorsed	700
Bills Receivable dishonoured (out of endorsed)	100
Bills Receivable discounted	200

Bills Receivable dishonoured (as discounted)	50
Transfer from purchase ledger to sales ledger	400
Debtors' Balance on 31st December 2011 (Cr.)	500
Creditors' Balance on 31st December 2011(Dr.)	200

Financial Statements of Not-for-Profit Organisation

10. (a) Elite Club has 200 members with an annual subscription of ₹ 3,600 payable by every member. An analysis of subscriptions received by the club during the accounting year ended on 31st March, 2011 revealed the following:

	₹
For the year 2009-10	25,200
For the year 2010-11	6,98,400
For the year 2011-12	7,200
	7,30,800

On 31st March, 2011 it was noted that a sum of ₹ 3,600 was still in arrears for the year ended 31st March, 2010. Calculate the amount of subscriptions that will appear on the credit side of the Club's Income and Expenditure Account for the year ended 31st March, 2011. Also show how items relating to subscriptions will appear in the Balance Sheet dated 31st March, 2011.

(b) The following is the Income and Expenditure Account of Patiala House for the year ended 31st March, 2011:

Income and Expenditure Account for the year ended 31st March, 2011

	₹		₹
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of furniture	2,500		
To Depreciation:			
Sports Equipment	6,000		

Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-3-2010	*31-3-2011*
	₹	₹
Subscriptions in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	-	150

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2010 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2011. Cash in hand amounted to Rs. 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2011.

Accounts from Incomplete Records

11. Fazal keeps his books of account by single entry system. However, he is able to give you the following lists of his assets and liabilities in the beginning as well as at the end of the year ended 31st March, 2011:

	On 1st April, 2010 ₹	On 31st March, 2011 ₹
Cash in hand	1,750	1,400
Cash at bank	20,000	-
Bank Overdraft	-	1,800
Bills Receivable	15,000	25,000
Stock	93,500	98,700
Debtors	60,000	70,000
Furniture and Fittings	65,000	65,000

Creditors	45,000	31,000
Bills Payable	5,000	Nil

Fazal introduced ₹ 10,000 as fresh capital on 1st October, 2010. He also withdrew ₹ 5,000 every month for his household expenses.

During the year, there was no sale or fresh purchase of furniture and fittings. Ascertain the profit earned by Fazal during the year ended 31st March, 2011 after depreciating furniture and fittings @ 10% per annum and creating a provision for bad debts @ 5% on debtors.

Accounting for Hire Purchase Instalment System

12. The under mentioned data pertain to M/s Jograj & Sons for the year ended 31st Dec., 2010 who deal in consumer durables.

	₹
Opening Stock:	
At shop	30,000
With customers at cost	20,000
Purchases	60,000
Hire purchase sales collection	70,000
Opening overdue Installments	10,000
Closing overdue Installments	6,000
Hire purchase expenses	3,000
Details about unmatured installments	
Cost Price	20,000
Sold out price	30,000
Amount of closing Unmatured Installments	18,000
General sales at 10% profit on cost price	22,000
Closing stock at shop	25,000

You are required to prepare the H.P. Trading Account and General Trading Account.

Investment Accounting

13. Alert Holdings P. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 nos. of 13.5% Convertible Debentures of Face Value of ₹ 100 each of Pergot Ltd. on 1st May 2010 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2010 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2010 the company sold 2,000 Debentures @ ₹ 103 each. On 31st December, 2010 the company received 10,000 equity shares of ₹ 10 each in

Pergot Ltd. on conversion of 20% of its holdings. The market value of the debentures and equity shares as at the close of the year were ₹ 106 and ₹ 9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of Alert Holdings P. Ltd. for the year 2010 on Average Cost Basis.

Insurance Claims

14. A fire engulfed the premises of a business of M/s Danger on the morning of 1st July 2011. The building, equipment and stock were destroyed and the salvage recorded the following:

    Building – ₹ 8,000; Equipment – ₹ 5,000; Stock – ₹ 40,000. The cost of salvage amounted to ₹ 17,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2011:

	₹
Sales	23,00,000
Sales Returns	80,000
Purchases	19,00,000
Purchases Returns	25,000
Cartage inward	36,000
Wages	15,000
Stock in hand on 31st December, 2010	3,00,000
Building (valued on 31st December, 2010)	7,50,000
Equipment (valued on 31st December, 2010)	1,50,000
Depreciation provision till 31st December, 2010 on:	
Building	2,50,000
Equipment	45,000

No depreciation has been provided since December 31st 2010. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. On a claim being made on the insurance company, the claim was settled for ₹ 10,50,000. Give necessary journal entries in this regard.

Partnership - Admission of a Partner

15. (a) Red and Green are partners sharing profits and losses in the ratio of 3:2 after allowing ₹ 500 p.m. salary for each partner. However, the accounts have not been prepared for the last three years. From the following details, you are required to calculate the distribution of profits between the partners in total for the three years.

	₹
Assets as at the end of 3rd year	80,000
Liabilities as at the end of 3rd year	20,000
Drawings for three years in addition to Salaries:	
Red	15,000
Green	11,000
Capital on commencement:	
Red	25,000
Green	20,000
Introduction of fresh capital during three years	
Red	5,000

(b) Teak and Walnut are equal partners in Timber Business. The Balance Sheet of their firm as on 31st of March, 2011 was as under:

Liabilities	*Amount*	*Assets*	*Amount*
Capital Accounts		Fixed Assets	1,25,000
Teak	80,000	Stocks	32,600
Walnut	80,000	Cash & Bank	27,400
Creditors & Sundry payables	25,000		
	1,85,000		1,85,000

On 1st April, 2011, Plywood is admitted as an equal partner. Prior to his admission, the partners agreed to bring into the books of the firm, stocks worth ₹ 40,000 that was received free of cost from a Business Associate. Consequent to Plywood's entry into the firm the capital base of the firm was expanded to ₹ 3 lakhs with all the partners agreeing to adopt the proportionate capital principle. Plywood brought in the agreed sum of ₹ 1,40,000. (₹ 1,00,000 towards capital and ₹ 40,000 towards his share of goodwill). The partners decided not to raise goodwill in the books of accounts.

You are requested to show Capital Accounts of the three partners and the Balance Sheet of the Firm as on 1st April, 2011.

Partnership – Retirement of a partner

16. Alpha, Beta and Cheeta were equal working partners in the business of salt and sugar trade. Cheeta decided to retire due to health considerations. Alpha & Beta decided to continue the business with profit sharing ratio of 3 : 2. To compensate Cheeta for his loss of income both continuing partners decided to contribute from their capitals, in the new profit sharing ratio, a sum of ₹ 5,00,000 in the form of Fixed Deposit (F.D.) in the name of Cheeta. Reserves of the firm were ₹ 12,00,000 which the partners wished,

should be continued in the books of the firm as such. Show the Journal Entries with appropriate narrations for giving Cheeta his share of Reserves and for the placement of the F.D. Capital balances were ₹ 30 lakhs, ₹ 20 lakhs and ₹ 15 lakhs respectively for Alpha, Beta & Cheeta. The Cash & Bank Balance of the firm stood at ₹ 1.76 crore.

Accounting in Computerised Environment

17. (a) A large business entity wants to go in for an ERP (Enterprise Resource Planning) package. Which factors should it consider for the choice of an ERP package?

(b) Briefly describe the advantages and disadvantages of using an Enterprise Resource Planning (ERP) software in computerized accounting.

Accounting Standards

AS 2

18. (a) As per Accounting Standard – 2 (Revised) 'Valuation of Inventories', what is meant by the term 'inventories'? Also state the general principle of valuation of inventories laid down by this accounting standard.

AS 3

(b) Describe, very briefly, the benefits of preparing Cash Flow Statement.

AS 6

19. (a) A company has the policy of charging depreciation @ 18% on machinery on Written Down Value method. As on 31st March, 2010, W.D.V. of machinery was ₹ 10 lakhs and its useful life was assessed 4 years. How much depreciation is to be charged in the accounting year ending 31st March, 2011?

If the above machinery has scrap value of ₹ 2 lakhs at the end of fourth year, what would be the amount of depreciation for the accounting year ending 31st March, 2011.

AS 7

(b) Galaxy Ltd., has signed on 31st Dec, 2010, the Balance Sheet date, a contract where the total revenue is estimated at ₹ 15 crores and total cost is estimated at ₹ 20 crores. No work began on the contract. Is contractor required to give any accounting effect for the year ended December, 31st 2010 in his accounts?

AS 9

(c) Y Co. Ltd., used certain resources of X Co. Ltd. In return, X Co. Ltd. received ₹ 10 lakhs and ₹ 15 lakhs as interest and royalties respective from Y Co. Ltd. during the year 2010-11.

You are required to state whether and on what basis these revenues can be recognised by X Co. Ltd.

AS 10

20. (a) Pellets India Ltd. intends to set up a steel pellet plant. The company has acquired a dilapidated factory having area of 5000 acres at a cost of ₹ 50,000 per acre. The company has incurred ₹ 1,02,00,000 on demolishing the old factory building thereon. A sum of ₹ 57,75,525 (including 5% sales tax) was realized from sale of material salvaged from the site. The company also incurred stamp duty and registration charges of 5% of land value, paid legal and consultancy charges ₹ 5,00,000 for land acquisition and incurred ₹ 1,50,000 on title guarantee insurance. You are required to compute the value of land acquired.

AS 13

(b) An unquoted long term investment is carried in the books at its cost of ₹ 5 lakhs. The Published Accounts of the unlisted company received in May, 2010 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 80,000.

State with reasons, how you would deal with them in the Financial Statements.

SUGGESTED ANSWERS/HINTS

1. (a) Distributable profits mean profit arrived at after providing for depreciation on assets, not only for the year in which the profits are earned but also for any arrears of depreciation of the past years, calculated in the manner prescribed by Section 205 of the Companies Act, 1956.

Computation of maximum amount that can be paid as Dividend:

	(₹ in lakhs)
Profit before depreciation	80.00
Less: Depreciation as per Section 205	62.00
Distributable profit	18.00

Therefore, maximum amount which can be paid as dividend would be ₹ 18.00 lakhs.

(b) A joint stock company, earning adequate profits and having part-time directors as well as whole-time directors can pay the maximum managerial remuneration to them as follows:

(i) The total remuneration to part-time directors taken together should not exceed 1% of the net profits of the company, if there is a managing or whole-time director.

(ii) The total remuneration to a whole-time director should not exceed 5% of the net profits of the company.

If there are only part-time directors and no managing or whole-time director in the company, the maximum managerial remuneration paid to them should not exceed 3% of the net profits of the company.

Note: With the approval of the Central Government, the above limits can be exceeded.

2. Z Ltd.

Cash Flow Statement for the year ended 31st March, 2011

	₹ in lakhs	₹ in lakhs
Cash flow from operating activities		
Cash receipts from customers	560	
Cash paid to suppliers	(400)	
Cash paid to employees	(20)	
Cash paid for overhead expenses	(40)	
Cash generated from operations	100	
Less: Income tax paid	(35)	
Net cash generated from operating activities		65
Cash flow from investing activities		
Purchase of machinery	(55)	
Proceeds from sale of land and building	20	
Net cash used in investing activities		(35)
Cash flow from financing activities		
Proceeds from issuance of equity share	60	
Repayment of bank loan	(60)	
Dividend paid	(10)	
Net cash used in financing activities		(10)
Net increase in cash and cash equivalents		20
Add: Cash and bank balances as on 1st April, 2010		10
Cash and bank balances as on 31st March, 2011		30

3. Profit & Loss Account

(From 1.1.2011 to 30.9.2011)

Particulars	*Pre-Incorp.*	*Post-Incorp.*	*Total*	*Particulars*	*Pre-Incorp*	*Post-Incorp.*	*Total*
	₹	₹	₹		₹	₹	₹
To General Expenses	6,320	7,900	14,220	By Gross Profit	16,000	40,000	56,000
To Directors' Fees	-	5,000	5,000				
To Formation Expenses	-	1,500	1,500				
To Rent	400	950	1,350				
To Manager's Salary	2,000	-	2,000				
To Net Profit	-	24,650	24,650				
To Capital Reserve	7,280	-	7,280				
	16,000	40,000	56,000		16,000	40,000	56,000

Working Notes:

(i) Gross Profit has been apportioned in the sales ratio i.e. 2 : 5 calculated as follows:

The average monthly sales for the first four months are 100.

Therefore, the average monthly sales for the next five months will therefore be (2 x 100) 200.

Hence, the total sales for the first four months are 400 (4 x 100) and those for the next five months (5 x 200) 1,000.

Thus, the sales for the two period are in the ratio of 400 : 1,000 or 2 : 5.

(ii) General expense have been apportioned according to time basis i.e. 4 : 5.

(iii) Rent

		₹
Rent for pre-incorporation period		
- 1st January, 2011 to 30th April, 2011	4 months x ₹ 100	400
Rent for post-incorporation period		
- 1st May, 2011 to 30th June, 2011	2 months x ₹ 100	200
- 1st July, 2011 to 30th September, 2011	3 months x ₹ 250	750
		950

(iv) Manager's salary for four months @ ₹ 500 per month is ₹ 2,000.

(v) Directors' fees for five months @ ₹ 1,000 per month.

(vi) The formation expenses have been charged exclusively to post-incorporation period.

4. Maximum amount of reserves available for capitalization as bonus shares

	₹
Securities Premium realized in cash	25,00,000
Capital Redemption Reserve built out of profits	25,25,000
General Reserve	1,40,50,000
Profit & Loss Account	21,75,000
Total	2,12,50,000
Amount required for a 1:1 issue	
Existing Class A Equity shareholders	1,00,00,000
Existing Class B shareholders to be made fully paid	12,50,000
Bonus Reservation for FCD holders on conversion	1,00,00,000
Total	2,12,50,000

Available Reserves is ₹ 2,12,50,000 of which ₹ 12,50,000 is required to make the partly paid Class B shareholders fully paid which is a statutory requirement. The balance reserves available are ₹ 2,00,00,000. Hence 1:1 bonus issue for Class A equity shareholders can be made. This will use up reserves to the extent of ₹ 1,00,00,000 and the remaining reserves of ₹ 1,00,00,000 will be used for issuing Bonus shares to the FCD holders in the ratio of 1:1 upon conversion of the FCD's into Class A Equity Shares. The reservation to the FCD holders is compulsory as per SEBI rules.

Other formalities are as under:

1. To convert partly paid up shares into fully paid up shares.
2. To increase the Authorized Capital of the company.
3. To ensure compliance with SEBI's (Issue of Capital and Disclosure Requirements) Regulations, 2009.
4. To ensure that the company has necessary authority in its Articles of Association (AOA) to proceed with the Bonus issue or else the AOA is to be amended.
5. To obtain the consent of the BOD to the issue.

5. Calculation of the ratio of exchange of shares

	Rahul Ltd.	Rohit Ltd.
	₹	₹
Fixed assets as revalued	6,25,000	2,75,000
Goodwill (W.N.2)	-	1,25,000
Stock	1,25,000	75,000
Debtors	1,50,000	1,00,000
Bank	50,000	25,000*
	9,50,000	6,00,000
Less:Creditors	(1,40,000)	(1,25,000)
Provision for taxation	(60,000)	(25,000)
Net assets	7,50,000	4,50,000
Number of shares	37,500 shares	30,000 shares
Value per share	₹ 20	₹ 15

Ratio of Exchange of Shares:

Since the intrinsic value of shares of Rahul Ltd. is ₹ 20 and Rohit Ltd. is ₹ 15 per share. Therefore, the ratio of exchange will be 3 shares of Rahul Ltd. for 4 shares of Rohit Ltd.

Balance Sheet of Rahul Ltd.

As at 31.3.2011 (after absorption)

Liabilities	₹	Assets		₹
Share Capital		Fixed assets		9,00,000
60,000, Equity shares of ₹ 10 each fully paid (out of the above 22,500 shares have been issued as fully paid for consideration other than cash)	6,00,000	Current Assets:		
		Stock	2,00,000	
		Debtors	2,50,000	
Securities Premium	2,25,000	Bank	70,000	5,20,000
Capital Reserve (on revaluation of assets) (1)	20,000			
Reserves	2,25,000			
Creditors	2,65,000			
Provision for Taxation	85,000			
	14,20,000			14,20,000

* After discharge of debenture holders.

Working Note:

1. Capital Reserve

		₹
Fixed assets of Rahul Ltd. revalued at		6,25,000
Less: Book value of fixed assets of Rahul Ltd.		(4,75,000)
Capital reserve on revaluation of fixed assets		1,50,000
Less: Goodwill on take over of Rohit Ltd. written off	1,25,000	
Cost of absorption adjusted	5,000	(1,30,000)
Balance in Capital Reserve Account		20,000

2. Calculation of Goodwill

	Average Profits
Years ended	
31-3-2009	90,000
31-3-2010	1,35,000
31-3-2011	1,50,000
	3,75,000
Average Profits	1,25,000
Goodwill at one year's purchase i.e.,	1,25,000

3. Bank position of Rahul Ltd. after absorption:

	₹
Balance as given	50,000
Add: Bank balance of Rohit Ltd. after payment to debeture holders	25,000
	75,000
Less: Costs of absorption	(5,000)
Balance	70,000

4. Shares issued by Rahul Ltd.

Total shares of Rohit Ltd. = 30,000 shares

No. of shares to be issued by Rahul Ltd. 30,000 x $\frac{3}{4}$ = 22,500 shares.

Since shares of Rahul Ltd. will be issued at ₹ 20,

₹ 10 should be treated as securities premium.

6. (1) Loss to be borne by Equity and Preference Shareholders

	₹
Profit and loss account (debit balance)	7,00,000
Preliminary expenses	1,00,000
Goodwill	2,00,000
Plant & Machinery	3,00,000
Debtors	3,50,000
Amount to be written off	16,50,000
Less: 50% of Creditors	(3,50,000)
Recorded loss borne by the share holders	13,00,000
Add: Arrears of preference dividend of 2 years forgone by the preference shareholders	1,40,000
Total sacrifice by the shareholders of Weak Ltd.	14,40,000

(2) Share of loss to be borne by the equity and preference shareholders

	₹	₹
Total recorded loss of ₹13,00,000		
Preference shareholders' share of loss = 20% of ₹ 10,00,000	2,00,000	
Add: Arrears of preference dividend	1,40,000	3,40,000
Equity shareholders' share of loss (₹13,00,000 – ₹ 2,00,000) being more than 51% of equity share capital		11,00,000
		14,40,000

(3) New share capital after restructuring

	₹
Equity shares:	
20,000 Equity shares of ₹ 45 each, fully paid up	9,00,000
(₹ 20,00,000 – ₹ 11,00,000)	
Preference shares:	
10,000, 9% Preference shares of ₹ 80 each, fully paid up	8,00,000
(₹ 10,00,000 – ₹ 2,00,000)	
	17,00,000

(4) Working capital of the restructured company

	₹	₹
Current Assets:		
Inventories		3,00,000
Debtors		4,00,000
Cash & Bank		1,50,000
		8,50,000
Less: Current liabilities:		
Creditors	3,50,000	
Bank overdraft (3,00,000-2,25,000)	75,000	(4,25,000)
		4,25,000

(5) Balance Sheet of Weak Ltd. (As reduced)

as on 31st March, 2011

Liabilities	₹	*Assets*	₹
Share Capital		Plant & Machinery	15,00,000
20,000 Equity shares of ₹ 45 each fully paid up	9,00,000	Inventories Debtors	3,00,000 4,00,000
10,000, 9% Preference shares of ₹ 80 each	8,00,000	Cash & Bank	1,50,000
Rich Bank Term Loan	2,25,000		
(3,00,000 – 75,000)			
Rich Bank Overdraft	75,000		
Creditors	3,50,000		
	23,50,000		23,50,000

7. Taking 1st January as zero date, we get:

Date of drawings 2011	Amount ₹	Months after 1st January, 2011	Products ₹
31st January	1,500	1	1,500
28th February	1,000	2	2,000

31st March	1,600	3	4,800
30th April	2,000	4	8,000
31st May	1,400	5	7,000
30th June	700	6	4,200
31st July	2,500	7	17,500
31st August	1,500	8	12,000
30th September	1,200	9	10,800
31st October	1,000	10	10,000
30th November	1,800	11	19,800
31st December	3,160	12	37,920
	19,360		1,35,520

Average Due Date $= \text{Base date} + \dfrac{\text{Total of Products}}{\text{Total of Amount}}$

$= \text{1st January, 2011} + \dfrac{1{,}35{,}520}{19{,}360}$

= 7 months from 1st January 2011 i.e., 31st July 2011

The amount of interest on drawings chargeable to Steady from 1st August, 2011 to 31st December, 2011

= 10% p.a. on ₹ 19,360 for 5 months

$= \dfrac{19{,}360 \text{x} 10 \text{x} 5}{100 \text{x} 12}$ = ₹ 807 (approx.)

8. In the books of G

H in Account Current with G

(Interest to 31st March, 2011 @ 10% p.a.)

Date	Due date	Particulars	No., of days till 31.3.11	Amount	Product	Date	Due date	Particulars	No. of days till 31.3.11	Amount	Product
2010	2010			₹		2010	2010			₹	
Oct. 1,	Oct. 1,	To Balance b/d	182	3,000	5,46,000	Nov. 16	Nov. 20	By Purchases	125	4,000	5,00,000
Oct. 18,	Oct. 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2011	2011					2011	2011				
Jan. 2	Apr. 6	To Bills payable	(6)	5,000	(30,000)	Mar. 28	Apr. 8	By Purchases	(8)	2,700	(21,600)
Feb. 4	Feb. 4	To Cash	55	1,000	55,000	Mar. 31	Mar. 31	By Balance of product			1,81,600
Mar. 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar. 31	Mar. 31	To Interest $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$		50	-						
				15,850	10,24,000					15,850	10,24,000

9. In the General Ledger

Total Debtors Account

2011	₹	2011	₹
Jan. 1		Jan. 1	
To Balance b/d	20,500	By Balance b/d	150
Till Dec. 31		Till Dec. 31	
To Interest	20	By Cash	12,000
To Sales	9,000	By Discount allowed	410
To Cash Refund	500	By Returns	80
To Total Creditors Account		By Bad Debts	600
(B/R dishonoured as endorsed)	100	By Bills Receivable	3,000
To Bank (B/R dishonoured as discounted)	50	By Transfer from Purchase Ledger	
To Balance c/d	500	to Sales Ledger	400
		By Balance c/d	14,030
		(Bal. Fig.)	
	30,670		30,670
2012		2012	
Jan. 1		Jan. 1	
To Balance b/d	14,030	By Balance b/d	500

Total Creditors Account

2011	₹	2011	₹
Jan. 1		Jan. 1	
To Balance b/d	100	By Balance b/d	15,000
Till Dec. 31		Till Dec. 31	
To Cash	7,600	By Purchases	8,000
To Discount received	200	By Bills Payable (Withdrawn)	300
To Returns Outwards	170		
To Bills Payable		By Interest on Bills	
(including renewals)	600	Payable (Renewal)	15
To Bills Receivable (Endorsed)	700	By Total Debtors Account	
To Transfer from Purchase		(Bills Receivable)	100

	Ledger to Sales Ledger	400		(Dishonoured as endorsed)	
To	Balance c/d	13,845	By	Balance c/d	200
	(Bal.Fig.)				
		23,615			23,615
Jan. 1, 2012			Jan. 1, 2012		
To	Balance b/d	200	By	Balance b/d	13,845

Notes:

1. Bills Receivable discounted is not shown in the total accounts.
2. Bills Receivable dishonoured (as endorsed) has to be entered both in total debtors and total creditors accounts. It is credited in the total creditors account and debited in the total debtors account.

10. (a) Income and Expenditure Account

for the year ended 31st March, 2011 (An Extract)

		Income	₹
		Subscriptions (₹ 3,600 x 200 members)	7,20,000

Balance Sheet as on 31st March, 2011 (An Extract)

Liabilities	₹	*Assets*		₹
Subscription received in advance	7,200	Subscription in arrear:		
		For 2009-10	3,600	
		For 2010-11	21,600	25,200

Working Note:

Subscription due for 2010-11 (₹ 3,600 x 200)	₹ 7,20,000
Subscription received for 2010-11	₹ 6,98,400
Subscription in arrear for 2010-11	21,600

(b) Receipts and Payments Account

For the year ended 31-3-2011

To Subscription A/c (W.N.1)	67,050	By Balance b/d		
To Donation A/c	5,000	(Bank overdraft)		15,000
To Entrance Fees A/c	4,000	By Salary	19,500	
To Furniture A/c (Sale of		*Add:* Outstanding of last year	1,200	

furniture) (7,000 – 2,500)	4,500	*Less:* Outstanding of this year	(350)	20,350
		By Rent	4,500	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(800)	4,200
		By Printing		750
		By Insurance	500	
		Add: Prepaid in this year	150	650
		By Audit Fees	750	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	500
		By Games & Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment		
		(Purchased) (W.N. 2)		5,000
		By Furniture (Purchased) (W.N. 3)		8,000
		By Balance c/d		
		Cash		850
		Bank (bal. fig.)		7,250
	80,550			80,550

Working Notes:

1. Calculation of subscription received during the year 2010-2011

	₹	₹
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2010-2011	3,700	
Advance in 2009-2010	1,000	(4,700)
		63,300
Add: Arrears of 2009-2010	2,600	
Advance for 2011-2012	1,500	4,100
		67,400
Less: Written off during 2010-2011		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2010-2011

Sports Equipment A/c

	₹		₹
To Balance b/d	25,000	By Income & Expenditure A/c	6,000
To Receipts & Payments A/c	5,000	(Depreciation)	

(Purchased) (bal. fig.)		By Balance c/d	24,000
	30,000		30,000

3. Calculation of Furniture purchased during 2010-2011

Furniture A/c

	₹		₹
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts & Payments A/c	8,000	By Income & Expenditure A/c	2,500
(Purchased)(Bal.fig.)		(Loss on sale)	
		By Income & Expenditure A/c	
		(Depreciation)	3,100
		By Balance c/d	27,900
	38,000		38,000

11. Statement of Affairs as on 1st April, 2010

	₹		₹
Creditors	45,000	Cash in Hand	1,750
Bills Payable	5,000	Cash at Bank	20,000
Capital (bal.fig.)	2,05,250	Bills Receivable	15,000
		Stock	93,500
		Debtors	60,000
		Furniture and Fittings	65,000
	2,55,250		2,55,250

Statement of Affairs as on 31st March, 2011

Liabilities	₹	*Assets*	₹	₹
Creditors	31,000	Cash in Hand		1,400
Bank Overdraft	1,800	Bills Receivable		25,000
Capital (bal.fig.)	2,17,300	Stock		98,700
		Debtors	70,000	
		Less: Provision for doubtful debts	(3,500)	66,500
		Furniture and fittings	65,000	
		Less: Depreciation	(6,500)	58,500
	2,50,100			2,50,100

Statement of Profit

	₹
Capital as on 31st March, 2011	2,17,300
Add: Drawings (₹ 5,000 x 12)	60,000
	2,77,300
Less: Additional capital	(10,000)
	2,67,300
Less: Capital as on 1st April, 2010	(2,05,250)
Profits during the year	62,050

12. ### Hire Purchase Trading Account

Particulars	₹	Particulars	₹	₹
To Opening Stock:		By H.P. Sales:		
With customers	20,000	Collection	70,000	
To General Trading Account	45,000	*Less*: Opening overdue		
To Hire Purchases expenses	3,000	Installments	(10,000)	
To Profit & Loss A/c:			60,000	
H.P. Profit (Bal.fig)	10,000	*Add*: Closing overdue		
		Installments	6,000	66,000
		By Closing Stock:		
		with customers		
		(18,000x20,000/30,000)		12,000
	78,000			78,000

General Trading Account

Particulars	₹	Particulars	₹
To Opening Stock	30,000	By Goods sold on hire purchase	45,000
To Purchases	60,000	(Bal.fig.)	
To Gross Profit transferred to		By Sales	22,000
Profit and Loss A/c	2,000	By Closing stock	25,000
	92,000		92,000

13. Books of Alert Holdings P. Ltd.

Investment in 13.50% Convertible Debentures in Pergot Ltd. Account

(Interest payable 31st March & 30th September)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
		₹	₹	₹			₹	₹	₹
2010					2010				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313		Dec.31	By Equity share	1,10,000		1,12,108
					Dec.31	By Bank (See note1)		3,713	
					Dec.31	By Balance c/d	4,40,000	14,850	4,48,434
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note 1: ₹ 3,713 received on 31.12.2010 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in Pergot Ltd. Account

Date	Particulars	Nominal	Dividend	Amount	Date	Particulars	Nominal	Dividend	Amount
		₹		₹			₹		₹
2010					2010				
Dec31	To 13.5% Deb.	1,00,000		1,12,108	Dec.31	By P&L A/c			22,108
					Dec.31	By Bal. c/d	1,00,000		90,000
		1,00,000		1,12,108			1,00,000		1,12,108

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2010 for the month of April 2010, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625

2. Interest received on 30th Sept. 2010

   On ₹ 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ₹ 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ₹ 50,625

3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2010 for April 2010 to July 2010 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = ₹ 11,250

4. Loss on Sale of Debentures

   Cost of acquisition

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000 = 2,03,833

   Less: Sale Price (2000 x 103) = 2,06,000

   Profit on sale = ₹ 2,167

5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2010

   1,10,000 x 13.5% x 3/12 = ₹ 3,713

6. Cost of Debentures converted to Equity Shares

   (₹ 5,19,375 + ₹ 2,45,000) x 1,10,000/7,50,000= ₹ 1,12,108

7. Cost of Balance Debentures

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 4,40,000/₹ 7,50,000 = ₹ 4,48,434

8. Interest on Closing Debentures for period Oct.-Dec. 2010 carried forward (accrued interest)

   ₹ 4,40,000 x 13.5% x 3/12 = ₹ 14,850

14. Memorandum Trading Account for the Period from 1.1.2011 to 30.6.2011

		₹			₹
To Opening Stock (1.1.2011)		3,00,000	By Sales	23,00,000	
To Purchases	19,00,000		*Less:* Sales		
Less: Returns	(25,000)	18,75,000	Returns	(80,000)	22,20,000
To Cartage Inwards		35,000	By Closing Stock		5,60,000
To Wages		15,000	(Bal. Fig.)		

To Gross Profit (25% of ₹ 22,20,000)	5,55,000		
	27,80,000		27,80,000

Stock Destroyed Account

	₹		₹
To Trading Account	5,60,000	By Stock Salvaged Account	40,000
		By Balance c/d (For Claim)	5,20,000
	5,60,000		5,60,000

Statement of Claim

Items	*Cost (₹)*	*Depreciation (₹)*	*Salvage (₹)*	*Claim (₹)*
A	*B*	*C*	*D*	*(E=B-C-D)*
Stock	5,60,000		40,000	5,20,000
Buildings	7,50,000	2,50,000 + 18,750	8,000	4,73,250
Equipment	1,50,000	45,000 + 11,250	5,000	88,750
Cost of salvage	17,000	-	-	17,000
				10,99,000

Journal Entries

		₹	₹
Insurance Company Account	Dr.	10,99,000	
To Stock Destroyed Account			5,20,000
To Buildings Account			4,73,250
To Equipment Account			88,750
To Cost of Salvage Account			17,000
(Amount of claim submitted)			
Bank Account	Dr.	10,50,000	
Profit and Loss Account	Dr.	49,000	
To Insurance Company Account			10,99,000
(Amount of claim admitted to the extent of ₹ 10,50,000; the balance transferred to profit and loss account)			

15. (a) Statement showing distribution of profits between the partners

	₹	₹
Assets at the end of the 3rd year		80,000
Less: Liabilities at the end of the 3rd year		(20,000)
		60,000
Add: Drawings including partnership salary:		
Red [15,000 + (500 x 12 x 3)]	33,000	
Green [11,000 + (500 x 12 x 3)]	29,000	62,000
		1,22,000
Less: Opening Capital:		
Red	25,000	
Green	20,000	(45,000)
		77,000
Less: Introduction of capital:		
Red		(5,000)
Net Profit		72,000

Profit and Loss Appropriation Account for 3 years

Particulars	₹	Particulars	₹
To Partner's Salary		By Net Profit for three years	72,000
Red (500 x 12 x 3)	18,000		
Green (500 x 12 x 3)	18,000		
To Share of Profit			
Red 21,600			
Green <u>14,400</u>	36,000		
	72,000		72,000

(b) Partners' Capital Accounts

Particulars	Teak	Walnut	Plywood	Particulars	Teak	Walnut	Plywood
	₹	₹	₹		₹	₹	₹
To Teak & Walnut	-	-	40,000	By Balance b/d	80,000	80,000	-
To Bank	20,000	20,000	-	By Bank	-	-	1,40,000

To Balance c/d	1,00,000	1,00,000	1,00,000	By Plywood	20,000	20,000	-
				By Stock A/c	20,000	20,000	-
	1,20,000	1,20,000	1,40,000		1,20,000	1,20,000	1,40,000

Balance Sheet of M/s Teak, Walnut & Plywood as on 1st April, 2011

Liabilities	₹	*Assets*	₹
Capital Accounts		Fixed Assets	1,25,000
Teak	1,00,000	Stocks	72,600
Walnut	1,00,000	Cash & Bank	1,27,400
Plywood	1,00,000		
Creditors & Sundry Payables	25,000		
	3,25,000		3,25,000

Working Note:

Old profit sharing ratio: 1:1

New ratio:1:1:1

Plywood's share of capital = ₹ 3,00,000/3 = ₹ 1,00,000

Goodwill = ₹ 1,40,000 – ₹ 1,00,000 = ₹ 40,000 for the 1/3rd share

16. Journal Entries

		₹	₹
(1) Fixed Deposit (FD) Account for Cheeta	Dr.	5,00,000	
To Bank A/c			5,00,000
(Being the placement of FD for Cheeta from Firm's resources)			
(2) Alpha's Capital Account	Dr.	3,00,000	
Beeta's Capital Account	Dr.	2,00,000	
To FD Account for Cheeta			5,00,000
(Being the FD taken out of firm's resources borne by the continuing partners in the new profit sharing ratio)			
(3) Alpha's Capital A/c	Dr.	3,20,000	
Beta's Capital A/c	Dr.	80,000	
To Cheeta's Capital Account			4,00,000
(Being entry for Cheeta's share of reserve borne by continuing partners in ratio of gain)			

Working Note:

Alpha's Gain = 3/5 – 1/3 = 4/15

Beta's Gain = 2/5 – 1/3 = 1/15

Gaining ratio of Alpha & Beta will thus be 4 : 1

17. (a) The business entity should consider the following factors while choosing an ERP package:

    (i) Functional requirement of the organization: The ERP that matches most of the requirements of the organization should be preferred to others.

    (ii) Reports available in the ERP: The organization should visualize the reporting requirements and choose a vendor which fulfils them.

    (iii) Background of the vendors: The service and deliverable record of a vendor is extremely important in choosing the vendor.

    (iv) Budget of the organization: The budget constraint and fund position of the enterprise should also be taken into consideration.

    (b) The followings are the advantages of using an Enterprise Resource Planning (ERP) software in computerized accounting:

    (i) It covers most of the common functions.

    (ii) It generates most of the desired reports which are standardize across industries and acceptable to users.

    (iii) It being an integrated package, duplication is avoided.

    (iv) Much more information is made available by this package than what is available otherwise.

    The followings are the disadvantages of ERP:

    (i) The user may have to modify his business procedures to use ERP effectively.

    (ii) It is often too expensive for small and medium sized organizations.

    (iii) There may be implementation hurdles.

    (iv) It is a complex software. Large number of modules, parameter settings and configuration makes it a complex.

18. (a) As per Accounting Standard 2 (Revised) 'Valuation of Inventories', inventories mean assets:

    (i) held for sale in the ordinary course of business;

    (ii) in the process of production for such sale; and

    (iii) in the form of materials, spares, or supplies to be consumed in the production process or in rendering of services

The general principle of valuation of inventories is that inventories should be valued at the lower of cost and net realisable value.

(b) The followings are the benefits of preparing Cash Flow Statement:

(i) It gives much more reliable information regarding results of the enterprise than the profit and loss account.

(ii) It gives an idea of the ability of the enterprise to meet its short term cash commitments and to pay dividend.

(iii) It is useful in checking the accuracy of past assessments of future cash flows.

(iv) It is very useful in planning and preparing cash budget for a future period.

(v) It is useful in getting information about changes in cash and cash equivalents over a period.

19. (a) (a)

	(₹ in lakhs)
W.D.V. as on 31st March, 2010	10.00
Depreciation for 2010-11 (₹ 10 lakh x 18%)	1.8

(b) Where machinery has scrap value of ₹ 2,00,000

Rate of depreciation as per WDV = $1 - \sqrt[n]{\frac{\text{Scrap value}}{\text{Cost}}}$ x100

Rate of depreciation = $[1 - \sqrt[4]{\frac{2,00,000}{10,00,000}}]$x100 or = $[1 - \sqrt[4]{\frac{20}{100}}]$x100

After applying the log and antilog table, the rate of depreciation would be

= [1-(1/4 log 20 - 1/4 log 100)] x 100

= [1-(/4 x 1.3010 - 1/4 x 2.0000)] x 100

= [1-(.32525-.5)] x 100

= [1-(-.17475)] x 100

= [1-(Antilog -.17475+1-1)] x 100

= [1-(Antilog bar1.8253)] x 100

= [1-0.6688] x 100 = .3312 x 100 = 33.12%

	(₹ in lakhs)
W.D.V. as on 31st March, 2010	10
Depreciation to be charged in 2010-11 @ 33.12%	3.312

(b) As per para 35 of AS 7 'Construction Contracts, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. The amount of such loss is determined irrespective of whether or not work has commenced on the contract. Thus, Galaxy Ltd. should recognize loss amounting ₹5 crores for the year ended 31st December, 2010. The contract should be reviewed at the end of the each accounting period for additional losses to be incurred, if any.

(c) As per para 13 of AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognised when no significant uncertainty as to measurability or collectability exists. These revenues are recognised on the following bases:

(i) Interest: on a time proportion basis taking into account the amount outstanding and the rate applicable.

(ii) Royalties: on an accrual basis in accordance with the terms of the relevant agreement

20. (a) Para 20 of AS 10 'Accounting for Fixed Assets' stipulates that the cost of a fixed asset should comprise of its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Further, in para 9, the standard gives examples of attributable costs such as site preparation & professional fees. Subsequently, through para 10.1 the standard also permits elimination of internal profits in arriving at costs. Accordingly the cost of the land will be as under:

		(₹ in lakhs)
Purchase price @ ₹ 50,000 per acre:		2,500.000
Stamp Duty & Registration charges @ 5%		125.000
Legal Fees		5.000
Title Guarantee Insurance		1.500
Demolition Expenses	102.00	
Sale of Salvaged materials (net of Tax)	(55.005)	46.995
Cost of Land		(2,678.495)

(b) Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On this basis, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to ₹ 80,000 in the financial statements for the year ended 31st March, 2010.

Appendix

Announcements and Notifications applicable for November, 2011 examination

1. **Limited Revisions due to Issuance of AS 30 and 31**

   As per the announcement issued by the Accounting Standard Board of the ICAI regarding applicability of AS 30 (dated 11th February, 2011) in respect of the financial statements, it has been clarified that to the extent of accounting treatments covered by any of the existing notified accounting standards (for eg. AS 11, AS 13 etc,) the existing notified accounting standards would continue to prevail over AS 30.

2. **Schedule XIII of the Companies Act 1956 being amended- Unlisted Companies shall not require Government Approval for Managerial Remuneration where they have no Profits**

   The Ministry of Corporate Affairs issued a notification on Managerial Remuneration in unlisted companies having no profits/inadequate profits.

   In the case of unlisted companies so long as the conditions specified in Schedule XIII, including special resolution of shareholders and absence of default on payment to creditors, are fulfilled approval will not be needed hereafter. Accordingly, Schedule XIII of the Companies Act 1956 is being amended to provide that unlisted companies (which are not subsidiaries of listed companies) shall not require Government approval for managerial remuneration in cases where they have no profits/ inadequate profits, provided they meet the other conditions stipulated in the Schedule.

Note: Accounting Standards 1, 2, 3, 6, 7, 9, 10, 13, 14, are covered in the syllabus.

Non- applicability of Announcements and Notifications for November, 2011 examination

1. The MCA has issued 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 November, 2011 Examination.**

2. **Non-applicability of Revised Schedule VI for November 2011 Examination**

   This is to bring to the attention of students that a decision has been taken to defer the applicability of the Revised Schedule VI for CA examination, consequent to which the same will not be applicable for PCC examinations to be held in November, 2011.