PAPER – 5 : ADVANCED ACCOUNTING

PART – I : RELEVANT ANNOUNCEMENTS, AMENDMENTS AND NOTIFICATIONS

A. Applicable for November, 2012 examination

1. Schedule VI revised by the Ministry of Corporate Affairs

The Ministry of Corporate Affairs (MCA) has revised Schedule VI to the Companies Act, 1956 on the 28th February, 2011 pertaining to the preparation of Balance Sheet and Profit and Loss Account under the Companies Act, 1956. This revised Schedule VI has been framed as per the existing non-converged Indian Accounting Standards notified under the Companies (Accounting Standards), Rules, 2006. The Revised Schedule VI shall come into force for the Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 1.4.2011.

2 Maintenance of Cash Reserve Ratio at 4.75 per cent

The Reserve Bank vide notification DBOD.No.Ret.BC.74 /12.01.001/2011-12 January 24, 2012 reduced the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks by 50 basis points from 6.00 per cent to 5.50 per cent of their Net Demand and Time Liabilities (NDTL) with effect from January 28, 2012.

However, the RBI had further reduced the Cash Reserve Ratio (CRR) of Scheduled Primary (Urban) Co-operative Banks by 75 basis points from 5.50 per cent to 4.75 per cent of their Net Demand and Time Liabilities (NDTL) vide Cir.No.3/12.03.000/ 2011-12 March 9, 2012, on reviewing the current and evolving liquidity conditions

Therefore, Cash Reserve Ratio (CRR) will be 4.75 per cent of their Net Demand and Time Liabilities (NDTL) with effect from March 10, 2012.

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

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

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

Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long term assets or liability, by recognition as income or expense in each of such periods, with the exception of exchange differences dealt with in accordance with the provisions of paragraph 15 of the said rules.

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

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

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

4. 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.

5. Amendment to Accounting Standard 11 of Companies (Accounting Standards) Rules, 2006

Ministry of Corporate Affairs vides its notification number G.S.R. (E) has partially amended the notification number GSR No. 225(E) dated 31.03.2009. Through this notification, the MCA has extended the option (for the enterprises) to capitalize the exchange differences arising on reporting of long term foreign currency monetary items till 31st March 2012 instead of 31st March 2011.

6. Sale of Investments held under Held to Maturity (HTM) category

Securities acquired by banks with the intention to hold them up to maturity may be classified under Held to Maturity (HTM) category. Banks are, however, allowed to shift investments to/from HTM with the approval of the Board of Directors once a year. Such shifting is normally allowed at the beginning of the accounting year and no further shifting to/from HTM is allowed during the remaining part of that accounting year. However, securities under HTM category are intended to be held till maturity and accordingly are not required to be marked to market.

RBI has decided vide a notification that if the value of sales and transfers of securities to/from HTM category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year, bank should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value for which provision is not made. This disclosure is required to be made in 'Notes to Accounts' in banks' audited Annual Financial Statements.

7. Enhancement of Rates of Provisioning for Non-Performing Assets and Restructured Advances

RBI vide its notification RBI 2010-11/529 DBOD.No.BP.BC. 94/21.04.048/2011-12 dated May 18, 2011 has revised provisioning requirements for the following categories of non-performing advances and restructured advances for all Scheduled Commercial Banks (Excluding RRBs) as under:

1. Sub-Standard Advances: Advances classified as "sub-standard" will attract a provision of 15 per cent as against the existing 10 per cent. The "unsecured exposures" classified as sub-standard assets will attract an additional provision of 10 per cent, *i.e.,* a total of 25 per cent as against the existing 20 per cent. However, "unsecured exposures" in respect of Infrastructure loan accounts classified as sub-standard, in case of which certain safeguards such as escrow accounts are available will attract an additional provision of 5 per cent only i.e. a total of 20 per cent as against the existing 15 per cent.

2. Doubtful Advances: Doubtful Advances will continue to attract 100% provision to the extent the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis. However, in respect of the secured portion, following provisioning requirements will be applicable:

   (i) The secured portion of advances which have remained in "doubtful" category up to one year will attract a provision of 25 per cent (as against the existing 20 per cent);

   (ii) The secured portion of advances which have remained in "doubtful" category for more than one year but upto 3 years will attract a provision of 40 per cent (as against the existing 30 per cent); and

   (iii) The secured portion of advances which have remained in "doubtful" category for more than 3 years will continue to attract a provision of 100%.

3. Restructured Advances:

   (i) Restructured accounts classified as standard advances will attract a provision of 2 per cent in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract a provision of 2 per cent for the period covering moratorium and two years thereafter (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances); and

(ii) Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2 per cent in the first year from the date of upgradation (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances).

4. All other instructions on provisioning will remain unchanged.

Rates of Provisioning for Non-Performing Assets and Restructured Advances are summarized as follows:

Category of Advances	Existing Rate (%)	Revised Rate (%)
Sub- standard Advances		
• Secured Exposures	10	15
• Unsecured Exposures	20	25
• Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available.	15	20
Doubtful Advances – Unsecured Portion	100	100
Doubtful Advances – Secured Portion		
• For Doubtful upto 1 year	20	25
• For Doubtful > 1 year and upto 3 years	30	40
• For Doubtful > 3 years	100	100
Loss Advances	100	100
Restructured accounts classified as standard advances in the first two years from the date of restructuring; and in cases of moratorium on payment of interest/principal after restructuring – period covering moratorium and two years thereafter.	0.25 to 1.00 (depending upon the category of advance)	2
Restructured accounts earlier classified as NPA and later upgraded to standard category in the first year from the date of upgradation	0.25 to 1.00 (depending upon the category of advance)	2

B. <u>Not Applicable for November, 2012 Examination</u>

Ind ASs issued by the Ministry of Corporate Affairs

The Ministry of Corporate Affair (MCA) has issued 35 Converged Indian Accounting Standards (known as ‘Ind-AS’), without announcing the applicability date. The issuance of Ind-AS is a significant step towards the implementation of converged standards in India. However, Ind ASs are not made applicable for November, 2012 examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS WITH HINTS

Employee Stock Option Plans

1. Rose Ltd. grants 1,000 employees stock options on 1.4.2009 at ₹ 80, when the market price is ₹ 320. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2011. 600 options are exercised on 30.6.2012. 100 vested options lapse at the end of the exercise period.

   Pass Journal Entries giving suitable narrations.

Buy –Back of Shares

2. Ekta Limited furnishes the following Balance Sheet as at 31st March, 2012:

Liabilities	₹'000	₹'000
Share Capital:		
Authorised Capital		30,00
Issued and subscribed capital:		
2,50,000 equity shares of ₹10 each fully paid up	25,00	
2,000, 10% Preference shares of ₹100 each		
(Issued two months back for the purpose of buy back)	2,00	27,00
Reserves and Surplus:		
Capital Reserve	10,00	
Revenue Reserve	30,00	
Securities Premium	22,00	
Profit and Loss A/c	35,00	
		97,00
Current liabilities		14,00
		1,38,00
Assets	₹'000	₹'000
Fixed assets		93,00
Investments		30,00
Current assets (Including cash and bank balance)		15,00
		13,800

The company passed a resolution to buy back 20% of its equity capital @ ₹ 50 per share. For this purpose, it sold all of its investments for ₹ 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

Underwriting of Shares

3. Special Ltd. invited applications from public for 1,00,000 equity shares of ₹10 each at a premium of ₹5 per share. The entire issue was underwritten by the underwriters A, B, C and D to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000, 2,000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law.

   The company received applications for 70,000 shares (excluding firm underwriting) from public, out of which applications for 19,000, 10,000, 21,000 and 8,000 shares were marked in favour of A, B, C and D respectively.

   Calculate the liability of each underwriters. Also ascertain the underwriting commission payable to different underwriters.

Redemption of Debentures

4. On 1st January, 2007 Rohan Limited issued fifteen years debentures of ₹100 each bearing interest at 10% p.a. One of the conditions of issue was that the company could redeem the debentures by giving six months' notice at any time after 5 years, at a premium of 4% either by payment in cash or by allotment of preference shares and/or other debentures at the option of the debenture holders.

   On 1st April, 2012 the Company gave notice to the debenture holders of its intention to redeem the debentures on 1st October, 2012 either by payment in cash or by allotment of 11% preference shares of ₹100 each at ₹130 share or 11% Second Debentures of ₹100 at ₹96 per debenture.

   Holders of 4,000 debentures accepted the offer of the preference shares; holders of 4,800 debentures accepted the offer of the 11% second debentures and the rest demanded cash on 1st October, 2012.

   Give the journal entries to give effect to the above as of 1st October, 2012.

Amalgamation

5. Following is the summarized Balance Sheet as at March 31, 2012:

					(₹'000)
Liabilities	*M Ltd.*	*N Ltd.*	*Assets*	*M Ltd.*	*N Ltd.*
Share capital:			Goodwill	40	–
Equity shares of ₹ 100 each	3,000	2,000	Other fixed assets	3,000	1,520
9% Preference shares of ₹. 100 each	1000	800	Debtors	1302	880
			Stock	786	1,360
General reserve	360	340	Cash at bank	52	260
Profit and loss account	–	30	Own debenture		
12% Debentures of ₹ 100			(Nominal value ₹	384	

each	1200	400	4,00,000)		
Sundry creditors	830	450	Discount on issue of debentures	4	
			Profit and loss account	822	
	6,390	4,020		6,390	4,020

On 1.4.2012, M Ltd. adopted the following scheme of reconstruction:

(i) Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.

(ii) Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.

(iii) Own debentures of ₹ 1,60,000 were sold at ₹ 98 cum-interest and remaining own debentures were cancelled.

(iv) Debentureholders of ₹ 5,60,000 agreed to accept one machinery of book value of ₹ 6,00,000 in full settlement.

(v) Creditors, debtors and stocks were valued at ₹ 7,00,000, ₹ 11,80,000 and ₹ 7,20,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.

(vi) The Company paid ₹ 30,000 as penalty to avoid capital commitments of ₹ 6,00,000.

On 2.4.2012 a scheme of absorption was adopted. M Ltd. would take over N Ltd. The purchase consideration was fixed as below:

(a) Equity shareholders of N Ltd. will be given 50 equity shares of ₹ 10 each fully paid up, in exchange for every 5 shares held in N Ltd.

(b) Issue of 9% preference shares of ₹ 100 each in the ratio of 4 preference shares of M Ltd. for every 5 preference shares held in N Ltd.

(c) Issue of one 12% debenture of ₹ 100 each of M Ltd. for every 12% debentures in N Ltd.

You are required to give Journal entries in the books of M Ltd. and draw the resultant Balance Sheet as at 2nd April, 2012

Internal Reconstruction of a Company

6. The Balance Sheet of Strong Limited as on 31st March, 2012 was as follows:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
5,00,000 Equity Shares of ₹ 10 each fully paid	50,00,000	Goodwill Patent	10,00,000 5,00,000
9% 20,000 Preference shares of		Land and Building	30,00,000

₹100 each fully paid	20,00,000	Plant and Machinery	10,00,000
10% First debentures	6,00,000	Furniture and Fixtures	2,00,000
10% Second debentures	10,00,000	Computers	3,00,000
Debentures interest outstanding	1,60,000	Trade Investment	5,00,000
Trade creditors	5,00,000	Debtors	5,00,000
Directors' loan	1,00,000	Stock	10,00,000
Bank O/D	1,00,000	Discount on issue of debentures	1,00,000
Outstanding liabilities	40,000		
Provision for Tax	1,00,000	*Profit and Loss Account (Loss)*	15,00,000
	96,00,000		96,00,000

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

'HE' holds 10% first debentures for ₹ 4,00,000 and 10% second debentures for ₹6,00,000. He is also creditors for ₹ 1,00,000. 'SHE' holds 10% first debentures for ₹ 2,00,000 and 10% second debentures for ₹ 4,00,000 and is also creditors for ₹ 50,000.

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

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

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

(iii) Mr. 'HE' is to cancel ₹ 6,00,000 of his total debt including interest on debentures and to pay ₹1 lakh to the company and to receive new 12% debentures for the Balance amount.

(iv) Mr. 'SHE' is to cancel ₹ 3,00,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.

(v) Trade creditors (other than 'HE' and 'SHE') agreed to forego 50% of their claim.

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

(vii) There were capital commitments totalling ₹ 3,00,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(viii) The Directors refund ₹ 1,10,000 of the fees previously received by them.

(ix) Reconstruction expenses paid ₹10,000.

(x) The taxation liability of the company is settled at ₹ 80,000 and the same is paid immediately.

(xi) The assets are revalued as under:

	₹
Land and Building	28,00,000
Plant and Machinery	4,00,000
Stock	7,00,000
Debtors	3,00,000
Computers	1,80,000
Furniture and Fixtures	1,00,000
Trade Investment	4,00,000

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

Liquidation of a company

7. The following is the Balance Sheet of Hemant Builders Ltd., as on 30th September, 2012:

Liabilities		₹	*Assets*	₹
Share Capital :			Land and Buildings	1,20,000
Issued : 11% Preference			Sundry Current Assets	3,95,000
Shares of ₹ 10 each		1,00,000	Profit & Loss Account	38,500
10,000 Equity Shares of			Debenture Issue	
₹ 10 each, fully paid up		1,00,000	Expenses not written	
5,000 Equity shares of			off	2,000
₹ 10 each, ₹ 7.50 per share paid-up		37,500		
13% Debentures		1,50,000		
Mortgage Loan		80,000		
Bank overdraft		30,000		
Creditors for Trade		32,000		
Income tax-arrears :				
(Assessment concluded in July, 2012)				
Assessment Yr. 2010-11	21,000			
Assessment Yr. 2011-12	5,000	26,000		
		5,55,500		5,55,500

Mortgage loan was secured against Land and Buildings. Debentures were secured by a floating charge on all the other assets. The company was unable to meet the payments and therefore the debenture holders appointed a Receiver and this was followed by a resolution for members voluntary winding up. The Receiver for the debenture holders brought the land and buildings to auction and realised ₹ 1,50,000. He also took charge of sundry assets of the value of ₹ 2,40,000 and realised ₹ 2,00,000. The Liquidator realised ₹ 1,00,000 on the sale of the balance of sundry current assets. The bank overdraft was secured by a personal guarantee of two of the directors of the company and on the Bank raising a demand the Directors paid off the dues from their personal resources. Costs incurred by the Receiver were ₹ 2,000 and by the Liquidator ₹ 2,800. The Receiver was not entitled to any remuneration but the Liquidator was to receive 3% fee on the value of assets realised by him. Preference shareholders had not been paid dividend for the period after 30th September, 2010 and interest for the last half-year was due to debenture holders.

Prepare the Accounts to be submitted by the Receiver and the Liquidator.

Financial Statements of Banking Companies

8. Following information is furnished to you by Sona Bank Ltd. for the year ended 31st March, 2012:

	(₹ in thousands)
Interest and discount - (Income)	8,860
Interest on public deposits – (Expenditure)	2,720
Operating expenses	2,662
Other incomes	250
Provisions and contingencies (it includes provision in respect of Non-performing Assets (NPAs) and tax provisions)	2,004
Rebate on bills discounted to be provided for as on 31.3.2012	30
Classification of Advances:	
Standard Assets	5,000
Sub-standard Assets	1,120
Doubtful Assets – fully unsecured	200
Doubtful assets – fully secured	
Less than 1 year	50
More than 1 year but less than 3 years	300
More than 3 years	300
Loss assets	200

You are required to prepare:

(i) Profit and Loss Account of the Bank for the year ended 31st March, 2012.

(ii) Provision in respect of advances.

Financial Statements of Insurance Companies

9. From the following information as on 31st March, 2012, prepare the Revenue Accounts of Big Co. Ltd. engaged in Marine Insurance Business:

	Particulars	*Direct Business (₹)*	*Re-insurance (₹)*
I.	Premium :		
	Received	24,00,000	3,60,000
	Receivable – 1st April, 2011	1,20,000	21,000
	– 31st March, 2012	1,80,000	28,000
	Premium paid	2,40,000	–
	Payable – 1st April, 2011	–	20,000
	– 31st March, 2012	–	42,000
II.	Claims :		
	Paid	16,50,000	1,25,000
	Payable – 1st April, 2011	95,000	13,000
	– 31st March, 2012	1,75,000	22,000
	Received	–	1,00,000
	Receivable – 1st April, 2011	–	9,000
	– 31st March, 2012	–	12,000
III.	Commission :		
	On Insurance accepted	1,50,000	11,000
	On Insurance ceded	–	14,000

Other expenses and income:

Salaries – ₹ 2,60,000; Rent, Rates and Taxes – ₹ 18,000; Printing and Stationery – ₹ 23,000; Indian Income Tax paid – ₹ 2,40,000; Interest, Dividend and Rent received (net) – ₹ 1,15,500; Income Tax deducted at source – ₹ 24,500; Legal Expenses (Inclusive of ₹ 20,000 in connection with the settlement of claims) – ₹ 60,000; Bad Debts – ₹ 5,000; Double Income Tax refund – ₹ 12,000; Profit on Sale of Motor car ₹ 5,000.

Balance of Fund on 1st April, 2011 was ₹ 26,50,000 including Additional Reserve of ₹ 3,25,000. Additional Reserve has to be maintained at 5% of the net premium of the year.

Financial Statements of Electricity Company

10. The trial balance of Roshni Electric Supply Ltd. for the year ended 31st March, 2012 is as below:

		(₹ ‘000)
Particulars	Dr.	Cr.
Share Capital :		
Equity Shares of ₹ 10 each		62,50
14% Preference Shares of ₹ 100 each		18,75
Patents and trademark	313	
15% Debentures		30,87.5
16% Term Loan		19,12.5
Land (additions during the year 256.25)	15,56.25	
Building (additions during the year 635)	43,91.75	
Plant & Machinery	71,32.25	
Mains	565.5	
Meters	393.75	
Electrical Instrument	191.25	
Office furniture	306.25	
Capital reserve		627.5
Contingency reserves		15,03.75
Transformers	20,55	
Net revenue account		668.75
Stock in hand	15,06.25	
Sundry debtors	780.75	
Contingency reserve investment	15,01.25	
Cash & Bank	406.75	
Public lamps	380	
Depreciation fund		32,27
Sundry Creditors		815.5
Proposed dividend		15,12.5
	214,80	214,80

During 2011-12, ₹ (’000) 12,50 of 14% preference shares were redeemed at a premium of 10% out of proceeds of fresh issue of equity shares of necessary amounts at a premium of 10%.

Prepare for the above period Balance Sheet as on 31st March, 2012 as per the revised Schedule VI.

Departmental Accounts

11. Loomani Ltd. has three departments XYZ. The following information is provided for the year ended 31.3.2012:

	X	Y	Z
	₹	₹	₹
Opening stock	5,000	8,000	19,000
Opening reserve for unrealised profit	–	2,000	3,000
Materials consumed	16,000	20,000	–
Direct labour	9,000	10,000	–
Closing stock	5,000	20,000	5,000
Sales	–	–	80,000
Area occupied (sq. mtr.)	2,500	1,500	1,000
No. of employees	30	20	10

Stocks of each department are valued at costs to the department concerned. Stocks of X are transferred to Y at cost plus 20% and stocks of Y are transferred to Z at a gross profit of 20% on sales. Other common expenses are salaries and staff welfare ₹ 18,000 and rent ₹ 6,000.

Prepare Departmental Trading, Profit and Loss Account for the year ending 31.3.2012.

Branch Accounting

12. Time & Co., with its Head Office at Delhi has a branch at Kanpur. Goods are invoiced to the Branch at cost plus 33 1/3%. The following information is given in respect of the branch for the year ended 31st March, 2012:

	₹
Goods sent to Branch (Invoice price)	4,80,000
Stock at Branch on 1.4.2011 (Invoice price)	24,000
Cash sales	1,80,000
Return of goods by customers to the Branch	6,000
Branch expenses (paid in cash)	53,500
Branch debtors balance on 1.4.2011	30,000
Discount allowed	1,000
Bad debts	1,500
Collection from Debtors	2,70,000
Branch debtors cheques returned dishonoured	5,000
Stock at Branch on 31.3.2012 (Invoice price)	48,000
Branch debtors balance on 31.3.2012	36,500

Prepare, under the Stock and Debtors system, the following Ledger Accounts in the books of the Head Office:

(i) Kanpur Branch Stock Account

(ii) Kanpur Branch Debtors Account

(iii) Kanpur Branch Adjustment Account.

Also compute shortage of Stock at Branch, if any.

Revised Schedule VI

13. Define following terms as per Revised Schedule VI.

Current Assets & Non-Current Assets, Current Liabilities & Non-Current Liabilities, Operating Cycle

Dissolution of a partnership firm

14. Tinu, Mike and Shine are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2012 is as follows:

Liabilities		₹	*Assets*	₹
Capital accounts			Plant and Machinery	1,08,000
Tinu	1,20,000		Fixtures	24,000
Mike	48,000		Stock	60,000
Shine	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the business. The following are the amounts realized:

Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded assets of ₹ 6,000 which was taken over by Mike at ₹ 4,800. A bill for ₹ 4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

(i) Realisation account.

(ii) Partners capital account.

(iii) Cash account

Partnership: Amalgamation of Firms

15. Firm Lemon & Co. consists of partners P and Q sharing Profits and Losses in the ratio of 3 : 2. The firm Orange & Co. consists of partners Q and R sharing Profits and Losses in the ratio of 5 : 3.

    On 31st March, 2012 it was decided to amalgamate both the firms and form a new firm Yellow & Co., wherein P, Q and R would be partners sharing Profits and Losses in the ratio of 4:5:1.

Balance Sheet as at 31.3.2012

Liabilities	Lemon & Co.,	Orange & Co.	Assets	Lemon & Co.	Orange & Co.
	₹	₹		₹	₹
Capital:			Cash in hand/bank	40,000	30,000
P	1,50,000	---	Debtors	60,000	80,000
Q	1,00,000	75,000	Stock	50,000	20,000
R	---	50,000	Vehicles	---	90,000
Reserve	50,000	40,000	Machinery	1,20,000	---
Creditors	1,20,000	55,000	Building	1,50,000	---
	4,20,000	2,20,000		4,20,000	2,20,000

The following were the terms of amalgamation:

(i) Goodwill of Lemon & Co., was valued at ₹ 75,000. Goodwill of Orange & Co. was valued at ₹ 40,000. Goodwill account not to be opened in the books of the new firm but adjusted through the Capital accounts of the partners.

(ii) Building, Machinery and Vehicles are to be taken over at ₹ 2,00,000, ₹ 1,00,000 and ₹ 74,000 respectively.

(iii) Provision for doubtful debts at ₹ 5,000 in respect of Lemon & Co. and ₹ 4,000 in respect of Orange & Co. are to be provided.

You are required to:

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

(ii) Prepare the Balance Sheet of Yellow & Co. as at 31.3.2012 by keeping partners capital in their profit sharing ratio by taking capital of 'Q' as the basis. The excess or deficiency to be kept in the respective Partners' Current account.

Partnership Conversion to a Company

16. 'E' and 'F' carrying on business in partnership sharing Profit and Losses equally, wished to dissolve the firm and sell the business to 'E' Limited Company on 31-3-2012, when the firm's position was as follows:

Liabilities	₹	Assets	₹
E's Capital	1,50,000	Land and Building	1,00,000
F's Capital	1,00,000	Furniture	40,000
Sundry Creditors	60,000	Stock	1,00,000
		Debtors	66,000
		Cash	4,000
	3,10,000		3,10,000

The arrangement with E Limited Company was as follows:

(i) Land and Building was purchased at 20% more than the book value.

(ii) Furniture and stock were purchased at book values less 15%.

(iii) The goodwill of the firm was valued at ₹ 40,000.

(iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services, the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.

(v) The purchase price was to be discharged by the company in fully paid equity shares of ₹ 10 each at a premium of ₹ 2 per share.

The company collected all the amounts from debtors. The creditors were paid off less by ₹ 1,000 allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation account, the Capital accounts of the partners and the Cash account in the books of partnership firm.

AS-4

17. (a) While preparing its final accounts for the year ended 31st March 2012, a company made a provision for bad debts @ 4% of its total debtors (as per trend follows from the previous years). In the first week of March 2012, a debtor for ₹ 3,00,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2012 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2012.

AS-5

(b) A limited company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2011-2012.

Subsequently on a review of the credit period allowed and financial capacity of the customers, the company decided to increase the provision to 8% on debtors as on 31.3.2012. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard can this revision be considered as an extraordinary item or prior period item?

AS-12

18. (a) Gandhi Ltd. received a grant of ₹ 2,500 lakhs during the last accounting year (2010-11) from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2011-12, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the current accounting treatment, with reference to the provisions of AS 12.

AS-16

(b) On 1st April, 2011, Ozon Construction Ltd. obtained a loan of ₹ 32 crores to be utilized as under:

(i)	Construction of sealink across two cities:		
	(work was held up totally for a month during the year due to high water levels)	:	₹ 25 crores
(ii)	Purchase of equipments and machineries	:	₹ 3 crores
(iii)	Working capital	:	₹ 2 crores
(iv)	Purchase of vehicles	:	₹ 50,00,000
(v)	Advance for tools/cranes etc.	:	₹ 50,00,000
(vi)	Purchase of technical know-how	:	₹ 1 crores
(vii)	Total interest charged by the bank for the year ending 31st March, 2012	:	₹ 80,00,000

Show the treatment of interest by Ozon Construction Ltd.

AS-19

19. (a) G Ltd. leased a machine to H Ltd. on the following terms:

	(₹ in lakhs)
Fair value of the machine	4.00
Lease term	5 years

Lease Rental Per annum	1.00
Guaranteed Residual value	0.20
Expected Residual value	0.40
Internal Rate of Return	15%

Depreciation is provided on straight line method at 10 per cent per annum. Ascertain Unearned Financial Income

AS-20

(b) Calculate the diluted earnings per share from the following information:

Net profit for the current year (after tax)	₹ 85,50,000
Number of equity shares outstanding	20,00,000
Number of 8% convertible debentures of ₹ 100 each	1,00,000
(Each debenture is convertible into 10 equity shares)	
Interest expenses for the current year	₹ 8,00,000
Tax relating to interest expenses	30%

AS-26

20 (a) Ram Ltd. launched a project for producing product X in Nov. 2010. The company incurred ₹ 30 lakhs towards research and development expenses up to 31st March, 2012. Due to unfavourable market conditions the management feels that it is not possible to manufacture and sell the product in the market for next so many years. The management hence wants to defer the expenditure write off to future years. Advise the company as per the applicable Accounting Standard.

AS-29

(b) Suraj Ltd. took a factory premises on lease on 1.4.09 for ₹ 2,00,000 per month. The lease is operating lease. During March, 2010, Suraj Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2012. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2012 should be provided in the accounts for the year ending 31.3.2010. Suraj Ltd. seeks your advice.

SUGGESTED ANSWERS/HINTS

1. **Journal Entries in the Books of Rose Ltd.**

Date	*Particulars*		*Dr. (₹)*	*Cr. (₹)*
31.3.2010	Employees compensation expenses account	Dr.	96,000	
	To Employees stock option outstanding account			96,000
	(Being compensation expenses recognized in respect of the employees stock option i.e. 1,000 options granted to employees at a discount of ₹ 240 each, amortised on straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account	Dr.	96,000	
	To Employees compensation expenses account			96,000
	(Being expenses transferred to profit and loss account at the end of the year)			
31.3.2011	Employees compensation expenses account	Dr.	96,000	
	To Employees stock option outstanding account			96,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of ₹ 240 each, amortised on straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account	Dr.	96,000	
	To Employees compensation expenses account			96,000
	(Being expenses transferred to profit and loss account at the end of the year)			
31.3.2012	Employees stock option outstanding account (W.N.)	Dr.	24,000	
	To General Reserve account (W.N.)			24,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
30.6.2012	Bank A/c (600 x ₹80)	Dr.	48,000	

	Employee stock option outstanding account (600 x ₹240)	Dr.	1,44,000	
	To Equity share capital account (600 x ₹ 10)			6,000
	To Securities premium account (600 x ₹ 310)			1,86,000
	(Being 600 employees stock option exercised at an exercise price of ₹ 80 each)			
01.10.2012	Employee stock option outstanding account	Dr.	24,000	
	To General reserve account			24,000
	(Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of 100 options at the end of exercise of option period)			

Working Note:

On 31.3.2012, Rose Ltd. will examine its actual forfeitures and make necessary adjustments, if any to reflect expenses for the number of options that have actually vested. 700 employees stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

	₹
No. of options actually vested (700 x ₹240)	1,68,000
Less: Expenses recognized ₹(96,000 + 96,000)	1,92,000
Excess expenses transferred to general reserve	24,000

2. Books of Ekta Limited

Journal Entries

Date	*Particulars*		*Dr.'000*	*Cr.'000*
	Bank A/c	Dr.	22,00	
	Profit and Loss A/c	Dr.	8,00	
	To Investment A/c			30,00
	(Being the Sale of all investments)			
	Equity Share Capital A/c	Dr.	5,00	
	Premium payable on buy back A/c	Dr.	20,00	
	To Equity share holders A/c / Equity shares buy back A/c			25,00
	(Being the amount due on buy back)			
	Securities Premium A/c	Dr.	20,00	

	To Premium payable on buy back A/c (Being the premium payable on buy back provided for)			20,00
	Securities Premium A/c Revenue Reserve A/c To Capital Redemption Reserve A/c (Being the amount equal to nominal value of equity shares bought back out of securities premium and free reserves transferred to capital redemption reserve a/c)	Dr. Dr.	2,00 1,00	 3,00
	Equity Shareholders A/c / Equity shares buy-back A/c To Bank A/c (Being the payment made on buy back)	Dr.	25,00	 25,00

Balance Sheet of Ekta Limited as on 1st April, 2012

(After buy back of shares)

		Particulars	Note No	Amount
				₹'000
		EQUITY AND LIABILITIES		
1		Shareholders' funds		
	(a)	Share capital	1	22,00
	(b)	Reserves and Surplus	2	69,00
2		Non-current liabilities		
3		Current liabilities		14,00
		Total		10,500
		ASSETS		
1		Non-current assets		
	(a)	Fixed assets		93,00
2		Current assets		
		(including cash and bank balance) (15,00+22,00- 25,00)		2,00
		Total		10,500

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Authorised Capital:		30,00
	2,00,000 equity shares of ₹10 each fully paid up	20,00	
	2,000 10% Preference shares of ₹100 each fully paid up	2,00	22,00
2.	**Reserves and Surplus**		
	Capital Reserve	10,00	
	Capital Redemption Reserve	3,00	
	Revenue Reserve	29,00	
	Profit and Loss A/c (35,00 – 8,00)	27,00	69,00

3. Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriters

(Number of shares)

	A	B	C	D	Total
Gross Liability	30,000	30,000	20,000	20,000	1,00,000
Less: Marked applications (excluding firm underwriting)	(19,000)	(10,000)	(21,000)	(8,000)	(58,000)
Balance	11,000	20,000	(1,000)	12,000	42,000
Less: Surplus of C allocated to A, B and D in the ratio of 3:3:2	(375)	(375)	1,000	(250)	-
Balance	10,625	19,625	-	11,750	42,000
Less: Unmarked applications including firm underwriting	(5,700)	(5,700)	(3,800)	(3,800)	(19,000)
Net Liability	4,925	13,925	(3,800)	7,950	23,000
Less: Surplus of C allocated to A, B and D in the ratio of 3:3:2	(1,425)	(1,425)	3,800	(950)	-
	3,500	12,500	-	7,000	23,000
Add: Firm underwriting	3,000	2,000	1,000	1,000	7,000
Total Liability	6,500	14,500	1,000	8,000	30,000

Calculation of underwriting commission:

As per law in force, underwriting commission is payable @ 5% of the issue price of shares.

Underwriting commission payable to A and B = 5% of (₹ 15 × 30,000 shares)
= ₹ 22,500.

Underwriting commission payable to C and D = 5% of (₹ 15 x 20,000 shares)
= ₹ 15,000.

Working Note:

Application received from public	70,000 shares
Add: Shares underwritten firm	7,000 shares
Total application	77,000 shares
Less: Marked applications	58,000 shares
Unmarked application including firm underwriting	19,000 shares

4 Journal Entries

Date	Particulars		Dr.(₹)	Cr. (₹)
1.10.2012	10% Debentures A/c	Dr.	10,00,000	
	Premium on Redemption of Debentures A/c	Dr.	40,000	
	To Debenture holders A/c			10,40,000
	(Being transfer of amount due on redemption of 10% debentures – nominal value ₹10,00,000 plus premium ₹40,000)			
	Debenture-holders A/c	Dr.	4,16,000	
	To 11% Preference Share Capital A/c			3,20,000
	To Securities Premium a/c			96,000
	(Being issue of 3200 preference shares of ₹100 each at a premium of ₹30 each in exchange of 4000 debentures)			
1.10.2012	Debentureholders A/c	Dr.	4,99,200	
	Discount on Issue of 11% Second Debentures A/c	Dr.	20,800	

	To 11% Second Debentures A/c			5,20,000
	(Issue of 5200 11% Second Debentures of ₹100/- each at a discount of ₹4 in exchange of 4800 Debentures)			
	Debentureholders A/c	Dr.	1,24,800	
	To Bank A/c			1,24,800
	(Being the redemption of 1200 debentures by cash)			

Working Notes:

		₹
(1)	Redemption of debentures by issuing preference shares:	
	Claim of the holders of 4000 debentures @ ₹ 104	4,16,000
	Number of preference shares to be issued $\left(\frac{₹\ 4,16,000}{130}\right)$	3,200
		₹
	Face value of preference shares @ ₹ 100 each	3,20,000
	Premium of preference shares @ ₹ 30 each	96,000
(2)	Redemption of debentures by issuing 11% Second Debentures:	
	Claim of the holders of 4,800 debentures @ ₹ 104	4,99,200
	Number of 11% Second Debentures to be issued $\left(\frac{₹\ 4,99,200}{₹\ 96}\right)$	5,200
		₹
	Face value of 11% Second Debentures @ ₹ 100 each	5,20,000
	Discount on issue of debentures @ ₹ 4 each	20,800
(3)	Redemption of debentures in cash:	
	Claim of the holders of 1200 debentures @ ₹ 104	
	(10,000 – 4,000 – 4,800 = 1200)	1,24,800

5. In the Books of M Ltd.

	Particulars	Dr.	Cr.
01.04.2012		Amount	Amount
		₹	₹
	Equity share capital A/c	Dr. 30,00,000	
	To Equity share capital A/c		30,00,000
	(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)		
	Equity share capital A/c	Dr. 15,00,000	
	To Capital reduction A/c		15,00,000
	(Being reduction of capital by 50%)		
	Capital reduction A/c	Dr. 27,000	
	To Bank A/c		27,000
	(Being payment in cash of 10% of arrear of preference dividend)		
	Bank A/c	Dr. 1,56,800	
	To Own debentures A/c		1,53,600
	To Capital reduction A/c		3,200
	(Being profit on sale of own debentures transferred to capital reduction A/c)		
	12% Debentures A/c	Dr. 2,40,000	
	To Own debentures A/c		2,30,400
	To Capital reduction A/c		9,600
	(Being profit on cancellation of own debentures transferred to capital reduction A/c)		
	12% Debentures A/c	Dr. 5,60,000	
	Capital reduction A/c	Dr. 40,000	
	To Machinery A/c		6,00,000
	(Being machinery taken up by debentureholders for ₹ 5,60,000)		
	Creditors A/c	Dr. 1,30,000	
	Capital reduction A/c	Dr. 58,000	
	To Debtors A/c		1,22,000
	To Stock A/c		66,000
	(Being assets and liabilities revalued)		
	Capital reduction A/c	Dr. 8,66,000	
	To Goodwill A/c		40,000
	To Discount on debentures A/c		4,000
	To Profit and Loss A/c		8,22,000
	(Being the balance of capital reduction transferred to capital reserve account)		

	Capital reduction A/c	Dr.	30,000	
	To Bank A/c			30,000
	(Being penalty paid for avoidance of capital commitments)			
	Capital reduction A/c	Dr.	4,91,800	
	To Capital reserve A/c			4,91,800
	(Being penalty paid for avoidance of capital commitments)			
02.04.2012	Business Purchase A/c	Dr.	26,40,000	
	To Liquidators of N Ltd.			26,40,000
	(Being the purchase consideration payable to N Ltd.)			
	Fixed Assets A/c	Dr.	15,20,000	
	Stock A/c	Dr.	13,60,000	
	Debtors A/c	Dr.	8,80,000	
	Cash at Bank A/c	Dr.	2,60,000	
	To Sundry Creditors A/c			4,50,000
	To 12% Debentures A/c of N Ltd.			4,00,000
	To Profit and Loss A/c			3,00,000
	To General reserve A/c ₹ (3,40,000+1,60,000*)			5,00,000
	To Business purchase A/c			26,40,000
	(Being the take over of all assets and liabilities of N Ltd. by M Ltd.)			
	Liquidators of N Ltd. A/c	Dr.	26,40,000	
	To Equity Share Capital			20,00,000
	To 9% Preference share capital			6,40,000
	(Being the purchase consideration discharged)			
	12% Debentures of N Ltd. A/c	Dr.	4,00,000	
	To 12% Debentures A/c			4,00,000
	(Being M Ltd. issued their 12% Debentures in against of every Debentures of N Ltd.)			

Balance Sheet of M Ltd. as at 2.4.2012

Particulars	Note No	Amount(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	51,40,000
(b) Reserves and Surplus	2	13,81,800

* ₹ 1,60,000 is the balancing figure adjusted to general reserve A/c as per AS 14 "Accounting for Amalgamation".

(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		8,00,000
(3) Current Liabilities		
(a) Trade payables		11,50,000
Total		84,71,800
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		39,20,000
(2) Current assets		
(a) Inventories		20,80,000
(b) Trade receivables		20,60,000
(c) Cash and cash equivalents		4,11,800
Total		84,71,800

Notes to Accounts

			₹
1	Share Capital		
	Equity Share Capital		35,00,000
	9% Preference share capital		16,40,000
			51,40,000
2	Reserves and Surplus		
	Profit and Loss A/c	30,000	
	General Reserve	8,60,000	
	Capital Reserve	4,91,800	13,81,800

Working Notes:

1. Purchase Consideration

Equity share capital $20,000 \times \frac{50}{5} \times$ ₹ 10 = 20,00,000

9% Preference share capital $8,000 \times \frac{4}{5} \times 100$ = 6,40,000

₹ 26,40,000

2. General Reserve

	₹
Share Capital of N Ltd. (Equity + Preference)	28,00,000
Less: Share Capital issued by M Ltd.	26,40,000
General reserve (resulted due to absorption)	1,60,000
Add: General reserve of N Ltd.	3,40,000
General reserve of M Ltd.	3,60,000
	8,60,000

6. Journal Entries in the Books of Strong Ltd.

			Dr.	*Cr.*
			₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (₹ 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (₹100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (₹50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% First Debentures A/c	Dr.	4,00,000	
	10% Second Debentures A/c	Dr.	6,00,000	
	Trade Creditors A/c	Dr.	1,00,000	
	Interest on Debentures Outstanding A/c	Dr.	1,00,000	
	Bank A/c	Dr.	1,00,000	
	To 12% New Debentures A/c			7,00,000

	To Reconstruction A/c			6,00,000
	(Being ₹ 6,00,000 due to 'HE' (including creditors) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)			
(iv)	10% First Debentures A/c	Dr.	2,00,000	
	10% Second Debentures A/c	Dr.	4,00,000	
	Trade Creditors A/c	Dr.	50,000	
	Interest on Debentures Outstanding A/c	Dr.	60,000	
	To 12% New Debentures A/c			4,10,000
	To Reconstruction A/c			3,00,000
	(Being ₹ 3,00,000 due to 'SHE' (including creditors) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)			
(v)	Trade Creditors A/c	Dr.	1,75,000	
	To Reconstruction A/c			1,75,000
	(Being remaining creditors sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 5) A/c			60,000
	To Reconstruction A/c			40,000
	(Being Directors' loan claim settled by issuing 12,000 equity shares of ₹ 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made for cancellation of capital commitments.)			
(viii)	Bank A/c	Dr.	1,10,000	
	To Reconstruction A/c			1,10,000
	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	10,000	

	To Bank A/c			10,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			80,000
	To Reconstruction A/c			20,000
	(Being payment of tax for 80% of liability in full settlement.)			
(xi)	Reconstruction A/c	Dr.	47,20,000	
	To Goodwill A/c			10,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			15,00,000
	To Discount on issue of Debentures A/c			1,00,000
	To Land and Building A/c			2,00,000
	To Plant and Machinery A/c			6,00,000
	To Furniture & Fixture A/c			1,00,000
	To Computers A/c			1,20,000
	To Trade Investment A/c			1,00,000
	To Stock A/c			3,00,000
	To Debtors A/c			2,00,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction.)			

Working Notes:

(1) Outstanding interest on debentures have been allocated between HE and SHE as follows:

			₹
‘HE’ 's Share			
10% First Debentures		4,00,000	
10% Second Debentures		6,00,000	10,00,000
10% on ₹10,00,000 i.e.	(A)		1,00,000
‘SHE’ 's Share			
10% First Debentures		2,00,000	

10% Second Debentures		4,00,000	6,00,000
10% on ₹ 6,00,000 i.e.	(B)		60,000
Total (A + B)			1,60,000

(2) Bank Account

		₹			₹
To	'HE' (reconstruction)	1,00,000	By	Balance b/d	1,00,000
To	Reconstruction A/c		By	Reconstruction A/c	15,000
	(paid by directors)	1,10,000		(capital commitment penalty paid)	
			By	Reconstruction A/c (reconstruction expenses paid)	10,000
			By	Provision for tax A/c(tax paid)	80,000
			By	Balance c/d	5,000
		2,10,000			2,10,000

7. Receiver's Receipts & Payments Account

Receipts	₹	*Payments*	₹
Sundry Assets realized	2,00,000	Cost of the Receiver	2,000
Surplus received from Mortgage:		Preferential Payments :	
Sales proceeds of Land and Building 1,50,000		Creditors for – Taxes raised within 12 months	26,000
Less : Applied towards discharge of Mortgage Loan 80,000	70,000	Debenture holders : Principal 1,50,000 Interest for six months 9,750	1,59,750
		Surplus transferred to the Liquidator	82,250
	2,70,000		2,70,000

Liquidator's Final Statement of Account

Receipts	₹	*Payments*	₹
Surplus received from Receiver	82,250	Cost of Liquidation	2,800

Assets realized	1,00,000	Remuneration to Liquidator		3,000
Calls on Contributories :		Unsecured Creditors :		
From 5,000 partly paid shares at the rate of ₹ 2.17 per share	10,850	Trade	32,000	
		Directors of Bank Overdraft paid	30,000	62,000
		Preference Shareholders :		
		Share Capital	1,00,000	
		Arrears of Div.	22,000	1,22,000
		Equity Shareholders :		
		Return of money to holders of 10,000 fully paid shares at 33 paise each		3,300
	1,93,100			1,93,100

Working Notes :

		₹
Calls from partly paid shareholders :		
Deficit before call from Equity Shares (1,82,250 – 1,89,800)		(7550)
Notional call on 5,000 shares @ ₹ 2.50 each		12,500
Surplus after Notional call	(a)	4,950
No. of Shares deemed fully paid	(b)	15,000
Refund on fully paid shares 4,950 / 15,000 =		33 paise
Call on partly paid shares (2.50 – 0.33) =		2.17

8. Sona Bank Ltd.

Profit and Loss Account for the year ended 31st March, 2012

		Schedule No.	*(₹ in thousands)*
Income:	Interest and Discount (8,860 – 30)	13	8,830
	Other income	14	250
			9,080
Expenditure:	Interest expenses	15	2,720
	Operating expenses	16	2,662
	Provision and Contingencies		2,004
			7,386
Net Profit/Loss for the year			1,694

Assets	*Value*	*% of provision*	*Provision*
Standard Assets	5,000	0.40	20.00
Sub-standard Assets*	1,120	15	168.00
Doubtful Assets			
100% unsecured	200	100	200.00
Secured:			
Less than 1 year	50	25	12.50
More than 1 year but less than 3 years	300	40	120.00
More than 3 years	300	100	300.00
Loss Assets	200	100	200.00
Total Provision			1,020.50

9. Form B – RA (Prescribed by IRDA)

Revenue Account for the year ended 31st March, 2012

Marine Insurance Business

	Schedule	*Current Year*	*Previous Year*
		₹	₹
Premiums earned (net)	1	25,21,750	
Interest, Dividends and Rent – Gross		1,15,500	
Double Income Tax refund		12,000	
Profit on sale of motor car		5,000	
Total (A)		26,54,250	
Claims incurred (net)	2	17,81,000	
Commission	3	1,47,000	
Operating expenses related to Insurance business	4	3,41,000	
Bad debts		5,000	
Indian and Foreign taxes		2,40,000	
Total (B)		25,14,000	
Profit from Marine Insurance business (A-B)		1,40,250	

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

Schedules forming part of Revenue Account

Schedule –1

Premiums earned (net)	*Current Year*	*Previous Year*
	₹	₹
Premiums from direct business written	28,27,000	
Less: Premium on reinsurance ceded	2,62,000	
Total Premium earned (net)	25,65,000	
Change in provision for unexpired risk (₹ 26,93,250 – ₹ 26,50,000)	(43,250)	
	25,21,750	
Schedule – 2		
Claims incurred (net)	17,81,000	
Schedule – 3		
Commission paid		
Direct	1,50,000	
Add: Re-insurance accepted	11,000	
Less: reinsurance ceded	14,000	
	1,47,000	
Schedule – 4		
Operating expenses related to insurance business		
Employees' remuneration and welfare benefits	2,60,000	
Rent, Rates and Taxes	18,000	
Printing and Stationery	23,000	
Legal and Professional charges	40,000	
	3,41,000	

Working Notes:

		Direct	*Re-insurance*
		₹	₹
1.	Total Premium Income		
	Received	24,00,000	3,60,000
	Add: Receivable on 31st March, 2012	1,80,000	28,000
		25,80,000	3,88,000

Less: Receivable on 1st April, 2011	1,20,000	21,000
	24,60,000	3,67,000

Total premium income 24,60,000 + 3,67,000 = 28,27,000

		₹
2.	Premium Paid	
	Paid	2,40,000
	Add: Payable on 31st March, 2012	42,000
		2,82,000
	Less: Payable on 1st April, 2011	20,000
		2,62,000
3.	Claims Paid	
	Direct Business	16,50,000
	Re-insurance	1,25,000
	Legal Expenses	20,000
		17,95,000
	Less: Re-insurance claims received	1,00,000
		16,95,000
4.	Claims outstanding as on 31st March, 2012	
	Direct	1,75,000
	Re-insurance	22,000
		1,97,000
	Less: Recoverable from Re-insurers on 31st March, 2012	12,000
		1,85,000
5.	Claims outstanding as on 1st April, 2011	
	Direct	95,000
	Re-insurance	13,000
		1,08,000
	Less: Recoverable from Re-insurers on 1st April, 2011	9,000
		99,000
6.	*Expenses of Management*	
	Salaries	2,60,000
	Rent, Rates and taxes	18,000
	Printing and Stationery	23,000
	Legal Expenses	40,000
		3,41,000

10. Balance Sheet of Roshini Electric Supply Ltd. for the year ended March 31, 2012

			Particulars	Note No	₹ ('000)
			Equity and Liabilities		
1			Shareholders' funds		
	a		Share capital	1	81,25
	b		Reserves and Surplus	2	2,800
2			Non-current liabilities		
	a		Long-term borrowings	3	5,000
3			Current liabilities		-
	a		Trade Payables		815.5
	b		Other current liabilities	4	15,12.5
			Total		182,53
			Assets		-
1			Non-current assets		-
	a		Fixed assets		-
		i	Tangible assets	5	12,395
		ii	Intangible assets		313
			Other non-current assets	6	15,01.25
2			Current assets		-
	a		Inventories		15,06.25
	b		Trade receivables		780.75
	c		Cash and cash equivalents		406.75
			Total		182,53

Notes to financial statements

			₹ ('000)
1	Share Capital		62,50
	Issued & subscribed		
	Equity share capital		
	5,00,000 Equity shares of ₹ 10 each	5,000	-
	Add: 1,25,000 Equity shares of ₹ 10 each issued during the year (A)	12,50	62,50
	Preference share capital		
	31,250 14% Preference shares of ₹ 100 each	31,25	

	Less: 12,500 Preference shares of ₹ 100 each redeemed during the year (B)	(12,50)	18,75
	Total (A+B)	-	81,25
2	Reserves and Surplus		
	Capital reserve		627.5
	Contingency Reserve		15,03.75
	Balance of net return A/c		668.75
	Total		2,800
3	Long-term borrowings		
	Secured		
	15% Debentures		30,87.5
	16% Term Loan (considered secured)		19,12.5
	Total		5,000
4	Other Current liabilities		-
	Proposed dividend		15,12.5
	Total		15,12.5
5	Tangible assets		
	Land	13,00	
	Addition during the year	256.25	15,56.25
	Building	37,56.75	
	Addition during the year	635	4,391.75
	Plant & Machinery		
	Steam Power Plant	71,32.25	
	Transformers	20,55	
	Mains	565.5	
	Meters	393.75	
	Public Lamps	380	105,26.5
	General Equipments		
	Electrical Instruments	191.25	
	Office Furniture	306.25	497.5
			169,72
	Less: Depreciation fund		(32,27)
	Total		137,45
6	Other non-current assets		
	Contingency Reserve Investment (assumed as non-current item)		15,01.25

11.

Loomani Ltd.
Departmental Trading and Profit and Loss Account
for the year ended 31st March, 2012

	X	Y	Z	Total		X	Y	Z	Total
	₹	₹	₹	₹		₹	₹	₹	₹
To Opening stock	5,000	8,000	19,000	32,000	By Sales			80,000	80,000
To Material consumed	16,000	20,000		36,000	By Inter-departmental transfer	30,000	60,000		90,000
To Direct labour	9,000	10,000		19,000	By Closing stock	5,000	20,000	5,000	30,000
To Inter-departmental transfer		30,000	60,000	90,000					
To Gross profit	5,000	12,000	6,000	23,000					
	35,000	80,000	85,000	2,00,000		35,000	80,000	85,000	2,00,000
To Salaries and staff welfare	9,000	6,000	3,000	18,000	By Gross profit b/d	5,000	12,000	6,000	23,000
To Rent	3,000	1,800	1,200	6,000	By Net loss	7,000			7,000
To Net profit		4,200	1,800	6,000					
	12,000	12,000	6,000	30,000		12,000	12,000	6,000	30,000
To Net loss (I)				7,000	By Stock reserve b/d (Y + Z)				5,000
To Stock reserve (Y+Z) (Refer W.N.)				3,000	By Net profit (Y + Z)				6,000
To Balance transferred to Profit and loss account				1,000					
				11,000					11,000

Working Note:

Calculation of unrealized profit on closing stock

	₹
Stock reserve of Y department	
Cost	30,000
Transfer from X department	30,000
	60,000
Stock of Y department	20,000

Proportion of stock of X department = $₹\ 20,000 \times \frac{₹\ 30,000}{₹\ 60,000} = ₹10,000$

Stock reserve $= ₹10,000 \times \frac{20}{120} = ₹1667$ (approx.)

Stock reserve of Z department

	₹
Stock transferred from Y department	5,000
Less: Profit (stock reserve) 5,000 × 20%	1,000
Cost to Y department	4,000

Proportion of stock of X department $= ₹\ 4,000 \times \frac{₹\ 30,000}{₹\ 60,000} = ₹\ 2,000$

$= ₹\ 2,000 \times \frac{20}{120} = ₹\ 333$ (approx.)

Total stock reserve = ₹1,000 + ₹333 = ₹1,333

12. In the books of head office

Kanpur Branch Stock Account

		₹			₹
1.4.2011	To Balance b/d	24,000	31.3.12	By Bank A/c (Cash Sales)	1,80,000
31.3.2012	To Goods sent to Branch A/c	4,80,000		By Branch Debtors (Credit Sales)	2,80,000
	To Branch Debtors	6,000		By Stock shortage: Branch P&L A/c 1,500* Branch Adjustment A/c (Loading) 500	2,000
				By Balance c/d	48,000
		5,10,000			5,10,000

Kanpur Branch Debtors Account

		₹			₹
1.4.2011	To Balance b/d	30,000	31.3.2012	By Bank A/c	
31.3.2012	To Bank A/c			(Collection)	2,70,000
31.3.2012	(dishonour of cheques)	5,000		By Branch Stock A/c	6,000
				By Bad debts	1,500
	To Branch Stock A/c	2,80,000*		By Discount allowed	1,000
				By Balance c/d	36,500
		3,15,000			3,15,000

Kanpur Branch Adjustment Account

	₹		₹
To Branch Stock A/c (loading of loss)	500*	By Stock Reserve A/c	6,000
To Stock Reserve	12,000	By Goods sent to Branch A/c	1,20,000
To Gross Profit c/d	1,13,500		
	1,26,000		1,26,000
To Branch Stock A/c (Cost of loss)	1,500	By Gross Profit b/d	1,13,500
To Branch Expenses	56,000		
To Net Profit (Transferred to General P & L A/c)	56,000		
	1,13,500		1,13,500

*Balancing figure.

Working Notes:

1. Credit Sales have not been given in the problem. So, the balancing figure of Branch Debtors Account is taken as credit sales
2. Loading is 33 $\frac{1}{3}$ % of Cost; i.e. 25% of invoice value

   Loading on opening stock = 24,000 × 25% = 6,000
3. Loading on goods sent = 4,80,000 × 25% = ₹1,20,000
4. Loading on Closing Stock = ₹48,000 × 25% = ₹12,000
5. Total Branch Expenses = Cash expenses + Bad debt + Discount allowed

   = ₹53,500 + ₹1,500 + ₹1,000 = ₹56,000

6. Gross Profit

Total sales (at invoice price)- Goods returned by customers (at invoice price) x $\frac{33.33}{100+33.33}$

$$\{(₹\ 1{,}80{,}000 + ₹\ 2{,}80{,}000) - ₹\ 6{,}000\} \times \frac{33.33}{133.33} = ₹\ 1{,}13{,}500$$

13. Current Assets & Non-Current Assets

"An asset shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is expected to be realized within twelve months after the reporting date; or

(d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current."

Current Liabilities & Non-Current Liabilities:

"A liability shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the reporting date; or

(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current."

Operating Cycle

"An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of twelve months."

14. Realisation Account

	Particulars	*Amount*		*Particulars*	*Amount*
To	Debtors	48,000	By	Creditors	48,000
To	Stock	60,000	By	Cash (Assets realized)	
To	Fixtures	24,000		Plant and Machinery 1,02,000	

To	Plant and machinery	1,08,000		Fixtures	18,000	
To	Cash (Creditors) A/c	45,600		Stock	84,000	
To	Cash A/c(Bills for sales tax)	4,200		Sundry Debtors	44,400	2,48,400
			By	Mike (Unrecorded assets)		4,800
To	Cash A/c(Realisation expenses)	1,500				
To	Profit on Realisation					
	Tinu 3,960					
	Mike 3,960					
	Shine 1,980	9,900				
		3,01,200				3,01,200

Partners' Capital Accounts

Particulars	Tinu	Mike	Shine	Particulars	Tinu	Mike	Shine
To Realisation (unrecorded assets)		4,800		By Balance b/d	1,20,000	48,000	24,000
				By Reserve fund	24,000	24,000	12,000
To Cash (Bal. Fig.)	1,47,960	71,160	37,980	By Realisation (Profit)	3,960	3,960	1,980
	1,47,960	75,960	37,980		1,47,960	75,960	37,980

Cash Account

	Particulars	Amount		Particulars	Amount
To	Balance c/d	60,000	By	Realisation A/c (Creditors)	45,600
To	Realisation A/c (Assets)	2,48,400	By	Realisation A/c (Expenses)	1,500
			By	Realisation (Sales Tax)	4,200
				Tinu's Capital A/c	1,47,960
				Mike's Capital A/c	71,160
				Shine's Capital A/c	37,980
		3,08,400			3,08,400

Working Note:

An unrecorded asset is in the nature of gain hence realization account is credited. Since these assets have been taken over by Mike, his account has been debited.

15 (i) Adjustment for raising and writing off of goodwill

	Raised in old profit sharing ratio		Total	Written off in new ratio	Difference
	Lemon & Co.	Orange & Co.			
	3:2 ₹	5:3 ₹	₹	₹	₹
P	45,000	---	45,000 Cr.	46,000 Dr.	1,000 Dr.
Q	30,000	25,000	55,000 Cr.	57,500 Dr.	2,500 Dr.
R	---	15,000	15,000 Cr.	11,500 Dr.	3,500 Cr.
	75,000	40,000	1,15,000	1,15,000	Nil

(ii) Balance Sheet of Yellow & Co.(New firm) as on 31.3.2012

Liabilities	₹	*Assets*	₹
Capital Accounts:		Vehicle	74,000
P	1,72,000	Machinery	1,00,000
Q	2,15,000	Building	2,00,000
R	43,000	Stock	70,000
Current Accounts:		Debtors	1,31,000
P	22,000	Cash & Bank	70,000
R	18,000		
Creditors	1,75,000		
	6,45,000		6,45,000

Working Notes:

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

	P's Capital ₹	*Q's Capital* ₹
Lemon & Co. Profit and loss sharing ratio 3:2		
Balance as per Balance Sheet	1,50,000	1,00,000
Add: Reserves	30,000	20,000
Revaluation profit (Building)	30,000	20,000
Less: Revaluation loss (Machinery)	(12,000)	(8,000)
Provision for doubtful debt	(3,000)	(2,000)
	1,95,000	1,30,000

	Q's Capital ₹	*R's Capital* ₹
Orange & Co. Profit and loss sharing ratio 5:3		
Balance as per Balance sheet	75,000	50,000
Add: Reserves	25,000	15,000
Less: Revaluation (vehicle)	(10,000)	(6,000)
Provision for doubtful debts	(2,500)	(1,500)
	87,500	57,500

2. Balance of Capital Accounts in the balance sheet of the new firm as on 31.3.2012

	P ₹	*Q* ₹	*R* ₹
Balance b/d: Lemon & Co.	1,95,000	1,30,000	--
Orange & Co.	--	87,500	57,500
	1,95,000	2,17,500	57,500
Adjustment for goodwill	(1,000)	(2,500)	3,500
	1,94,000	2,15,000	61,000
Total capital ₹ 4,30,000 (Q's capital* i.e. ₹2,15,000 x 2) to be contributed in 4:5:1 ratio.	1,72,000	2,15,000	43,000
Transfer to Current Account	22,000	---	18,000

16. Realisation Account

	₹		₹
To Land & Building	1,00,000	By Sundry Creditors	60,000
To Furniture	40,000	By E Ltd. Co. -Purchase consideration – (W.N.1)	2,79,000
To Stock	1,00,000		
To Debtors	66,000	By E Ltd. Company –Sundry Debtors 66,000 Less: Commission 5% on 66,000 3,300	62,700
To E Ltd. Co. - Sundry Creditors	59,000		

* Q's Capital ₹21,500 being one-half of the total capital of the firm.

To	E Ltd. Co. – Commission 3% on 59,000	1,770		
To	Profits transferred to E's Capital A/c 17,465 F's Capital A/c 17,465	34,930		
		4,01,700		4,01,700

Capital Accounts

		E	F			E	F
		₹	₹			₹	₹
To	Shares in E Ltd. Co.– (W.N.2)	1,63,980	1,15,020	By	Balance b/d	1,50,000	1,00,000
To	Cash – Final Payment	3,485	2,445	By	Realisation A/c - Profit	17,465	17,465
		1,67,465	1,17,465			1,67,465	1,17,465

Cash Account

		₹			₹
To	Balance b/d	4,000	By	E's Capital A/c- Final payment	3,485
To	E Ltd. Co. (Amount realized from Debtors less amount paid to creditors) –(W.N.3)	1,930	By	F's Capital A/c- Final Payment	2,445
		5,930			5,930

Working Notes:

1 Calculation of Purchase consideration:

	₹
Land & Building	1,20,000
Furniture	34,000
Stock	85,000
Goodwill	40,000
	2,79,000

2. The shares received from the company have been distributed between the two partners E & F in the ratio of their final claims i.e., 1,67,465: 1,17,465*.

   No. of shares received from the company = $\frac{2,79,000}{12} = 23,250$

   E gets $\frac{23,250 \times 1,67,465}{2,84,930} = 13,665$ shares valued at 13,665 x 12 = ₹1,63,980. F gets the remaining 9,585 shares, valued at ₹1,15,020 (9,585 × 12)

3. Calculation of net amount received from E Ltd on account of amount realized from debtors less amount paid to creditors.

		₹
	Amount realized from Debtors	66,000
Less:	Commission for realization from debtors (5% on 66,000)	3,300
		62,700
Less:	Amount paid to creditors	59,000
		3,700
Less:	Commission for cash paid to creditors (3% on 59,000)	1,770
Net amount received		1,930

17. (a) As per para 8 of AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for ₹ 3,00,000 suffered heavy loss due to earthquake in the first week of March, 2010 and he became bankrupt in April, 2012 (after the balance sheet date). The loss was also not covered by any insurance policy. Accordingly, full provision for bad debts amounting ₹ 3,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2012.

(b) The preparation of financial statements involve making estimates which are based on the circumstances existing at the time when the financial statements are

* In the above situation, shares received from E Ltd. Company have been distributed between two partners E and F in the ratio of their final claims. Alternatively, shares received from E Ltd. can be distributed among the partners in their profit sharing ratio i.e. ₹ 2,79,000 x ½ =₹ 1,39,500 each. In that case, firm will pay cash amounting ₹ 27,965 to E and will receive cash ₹22,035 from F.

prepared. It may be necessary to revise an estimate in a subsequent period if there is a change in the circumstances on which the estimate was based. Revision of an estimate, by its nature, does not bring the adjustment within the definitions of a prior period item or an extraordinary item [para 21 of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies].

In the given case, a limited company created 2.5% provision for doubtful debts for the year 2011-2012. Subsequently in 2012 they revised the estimates based on the changed circumstances and wants to create 8% provision. As per AS-5 (Revised), this change in estimate is neither a prior period item nor an extraordinary item.

However, as per para 27 of AS 5 (Revised), a change in accounting estimate which has material effect in the current period, should be disclosed and quantified. Any change in the accounting estimate which is expected to have a material effect in later periods should also be disclosed.

18. (a) As per AS 12 'Accounting for Government Grants', Government grants sometimes become refundable because certain conditions are not fulfilled. A government grant that becomes refundable is treated as an extraordinary item as per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Polices". The amount refundable in respect of a government grant related to revenue is applied first against any unamortized deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement. In the present case, the amount of refund of government grant should be shown in the profit & loss account of the company as an extraordinary item during the year 2011-12.

(b) According to para 3 of AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use.

As per para 6 of AS 16, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Other borrowing costs should be recognised as an expense in the period in which they are incurred

The treatment of interest by Ozon Construction Ltd. can be shown as:

	Qualifying Assets	Interest to be capitalized (₹)	Interest to be charged to profit & loss A/c (₹)	
Construction of sea-link	Yes	62,50,000		(80,00,000*(25/32)
Purchase of equipments				

and machineries	No		7,50,000	(80,00,000*(3/32)
Working capital	No		5,00,000	(80,00,000*(2/32)
Purchase of vehicles	No		1,25,000	(80,00,000*(.5/32)
Advance for tools, cranes etc.	No		1,25,000	(80,00,000*(.5/32)
Purchase of technical know-how	No	________	2,50,000	(80,00,000*(1/32)
Total		62,50,000	17,50,000	

19. (a) As per AS 19 on Leases, unearned finance income is the difference between (a) the gross investment in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

where :

Gross investment in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

Gross investment = Minimum lease payments + Unguaranteed residual value

= [Total lease rent + Guaranteed residual value (GRV)] + Unguaranteed residual value (URV)

= [(₹ 1,00,000 × 5 years) + ₹ 20,000] + ₹ 20,000

= ₹ 5,40,000 *(a)*

Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	*M.L.P. inclusive of URV* ₹	*Internal rate of return (Discount factor @ 15%)*	*Present Value* ₹
1	1,00,000	0.8696	86,960
2	1,00,000	0.7561	75,610
3	1,00,000	0.6575	65,750
4	1,00,000	0.5718	57,180
5	1,00,000	0.4972	49,720
	20,000 (GRV)	0.4972	9,944
	5,20,000		3,45,164 (i)
	20,000 (URV)	0.4972	9,944 (ii)
	5,40,000	(i) + (ii)	3,55,108 *(b)*

Unearned Finance Income = (a) – (b)

= ₹ 5,40,000 – ₹ 3,55,108

= ₹ 1,84,892

(b) "In calculating diluted earnings per share, effect is given to all dilutive potential equity shares that were outstanding during the period." As per para 26 of AS 20 'Earnings per Share', the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares for the purpose of calculation of diluted earnings per share.

Computation of diluted earnings per share

$$\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$$

Adjusted net profit for the current year

	₹
Net profit for the current year	85,50,000
Add: Interest expense for the current year	8,00,000
Less: Tax relating to interest expense (30% of ₹ 8,00,000)	2,40,000
Adjusted net profit for the current year	91,10,000

Number of equity shares resulting from conversion of debentures

=1,00,000 × 10 = 10,00,000 Equity shares

Diluted earnings per share = $\frac{91,10,000}{30,00,000 \text{ shares}}$ = ₹ 3.037 per share approx.

20. (a) As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognised 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 the provisions of AS 26. Therefore, the management cannot defer the expenditure write off to future years and the company is required to expense the entire amount of ₹ 30 lakhs in the Profit and Loss account of the year ended 31st March, 2012.

(b) In accordance with the provisions of AS 29 'Provisions, Contingent Liabilities and Contingent Assets', if an enterprise has a contract that is onerous, the present obligation under the contract should be recognized and measured as a provision. In the given case, the operating lease contract has become onerous* as the economic benefit of lease contract for next 33 months up to 31.12.2012 will be nil. However, the lessee, Suraj Ltd., has to pay lease rent of ₹ 66,00,000 (i.e. 2,00,000 p.m. for next 33 months). Therefore, provision on account of ₹ 66,00,000 is to be provided in the accounts for the year ending 31.03.10. Hence auditor is right.

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