PAPER – 5: ADVANCED ACCOUNTING

*Answer **all** questions*

Wherever appropriate, suitable assumption(s) should be made by the candidates.

Working notes should form part of the answer

Question 1

Answer the following questions:

(i) A Company had issued 20,000, 13% Convertible debentures of Rs.100 each on 1st April, 2007. The debentures are due for redemption on 1st July, 2009. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentureholders to convert 20% of their holding into equity shares (Nominal value Rs.10) at a price of Rs.15 per share. Debentureholders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debentureholders exercising the option to the maximum.

(ii) Santosh Ltd. has received a grant of Rs.8 crores from the Government for setting up a factory in a backward area. Out of this grant, the company distributed Rs.2 crores as dividend. Also, Santosh Ltd. received land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent. In the light of AS 12 examine, whether the treatment of both the grants is correct.

(iii) Rohini Limited has obtained loan from an Institution for Rs.500 lacs for modernization and renovation of its plant and machinery. The installation of plant and machinery was completed on 31.3.2009 amounting to Rs.320 lacs and Rs.50 lacs was advanced to suppliers of additional assets and the balance of Rs.130 lacs has been utilized for working capital requirements. Total interest paid for the above loan amounted to Rs.65 lacs during 2008-09. You are required to state how the interest on institutional loan is to be accounted for in the year 2008-09.

(iv) A Company follows April to March as its financial year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of financial statement by debiting 'Cheques in hand account' and crediting 'Debtors account'. The 'cheques in hand' is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?

(v) What is Piecemeal payments method under Partnership Dissolution? Briefly explain the two methods followed for determining the order in which the payments are made?

(vi) *Briefly explain "Reserve for Unexpired Risks" under General Insurance Business. What are the percentages of such reserve to be created under IRDA Act for various General Insurance businesses?*

(vii) *On 31st March, 2010, the following ledger balances have been extracted from the books of Washington branch office:*

Ledger Accounts	$
Building	180
Stock as on 1.4.2009	26
Cash and Bank Balances	57
Purchases	96
Sales	110
Commission receipts	28
Debtors	46
Creditors	65

You are required to convert above Ledger balances into Indian Rupees.

Use the following rates of exchange:

	Rs. per $
Opening rate	46
Closing rate	50
Average rate	48
For fixed assets	42

(viii) *Mention the condition when a cash credit overdraft account is treated as 'out of order'.*

(ix) *From the following information, calculate the amount of sundry debtors as on 31.3.2010:*

Balance as on 1.4.2009 is Rs.50,000.

Bad debts are 2% and discount to the customers is given @ 1% of the opening balance of sundry debtors.

Returns from the customers are Rs.3,000.

Cash received from debtors is Rs.2,30,000.

Cash received from debtors in transit is Rs.14,000.

Cash sales are Rs.5,00,000.

Credit sales are Rs.2,50,000.

(x) *Closing stock for the year ending on 31.3.2010 is Rs.50,000 which includes stock damaged in a fire in 2008-09. On 31.3.2009, the estimated net realisable value of the damaged stock was Rs.12,000. The revised estimate of net realisable value of damaged goods amounting Rs.4,000 has been included in closing stock of Rs.50,000 as on 31.3.2010.*

Find the value of closing stock to be shown in Profit and Loss account for the year 2009-10. *(10 × 2 = 20 Marks)*

Answer

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

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500

Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	Rs.3,67,500
Equity shares of Rs.10 each issued on conversion [Rs.3,67,500/ Rs.15]	24,500 shares

(ii) As per AS 12 'Accounting for Government Grants', when government grant is received for a specific purpose, it should be utilised for the same. So the grant received for setting up a factory is not available for distribution of dividend.

In the second case, even if the company has not spent money for the acquisition of land, land should be recorded in the books of accounts at a nominal value. The treatment of both the grants is incorrect as per AS 12.

(iii) As per AS 16 'Borrowing Costs', borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets* should be capitalised as part of the cost of that asset. Other borrowing costs are recognized as expense in the period in which they are incurred.

* A qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use or sale.

The treatment for total interest amount of Rs.65 lakhs can be given as:

Purpose	*Nature*	*Interest to be capitalised (Rs. in lakhs)*		*Interest to be charged to Profit and Loss A/c (Rs. in lakhs)*	
Installation of Plant and Machinery	Qualifying asset	$320 \times \frac{65}{500} =$	41.60		
Advance to suppliers for additional assets	Qualifying asset	$50 \times \frac{65}{500} =$	6.50		
Working Capital	Not a qualifying asset			$130 \times \frac{65}{500} =$	16.90
			48.10		16.90

(iv) Even if the cheques bear the date 31st March or before, the cheques received after 31st March do not represent any condition existing on the balance sheet date i.e. 31st March. Thus, the collection of cheques after balance sheet date is not an adjusting event. Cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though the same may be dated 31st March or before as per AS 4 "Contingencies and Events Occurring after the Balance Sheet Date". Moreover, the collection of cheques after balance sheet date does not represent any material change affecting financial position of the enterprise, so no disclosure in the Director's Report is necessary.

(v) Generally, the assets sold upon dissolution of partnership are realised only in small instalments over a period of time. In such circumstances the choice is either to distribute whatever is collected or to wait till whole amount is collected. Usually, the first course is adopted. In order to ensure that the distributed cash amongst the partners is in proportion to their interest in the partnership concern either of the two methods described below may be followed for determining the order in which the payment should be made.

(1) *Maximum Loss Method:* Each instalment realised is considered to be the final payment i.e. outstanding assets and claims are considered worthless and partners' accounts are adjusted on that basis each time when a deposit is made following either Garner Vs. Murray rule or the profit sharing ratio rule.

(ii) *Highest Relative Capital Method:* According to this method, the partner who has the higher relative capital, that is, whose capital is greater in proportion to his profit sharing ratio is first paid off. This method is also called as proportionate capital method.

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(vi) The need for unexpired risks reserve arises from the fact that all policies are renewed annually except in specific cases where short period policies are issued. Since the insurers close their accounts on a particular date, not all risks under policies expire on that date. Many policies normally extend beyond this date into the following year during which risks continue. In other words, at the closing date, there is unexpired liability under various policies, which may occur during the remaining term of the policy beyond the year end.

According to the requirements of the Insurance Act, it is sufficient if the provision is made for unexpired risks at 50 per cent for Fire, Marine Cargo and Miscellaneous business except for Marine Hull which has to be 100 per cent.

(vii) Conversion of ledger balances (in Dollars) into Rupees

	$	*Rate per $*	*Amount in Rupees*
Building	180	42	7,560
Stock as on 01.04.2009	26	46	1,196
Cash and bank balances	57	50	2,850
Purchases	96	48	4,608
Sales	110	48	5,280
Commission receipts	28	48	1,344
Debtors	46	50	2,300
Creditors	65	50	3,250

(viii) A cash credit overdraft account is treated as NPA if it remains out of order for a period of more than 90 days. An account is treated as 'out of order' if any of the following conditions is satisified:

(a) The outstanding balance remains continuously in excess of the sanctioned limit/drawing power.

(b) Though the outstanding balance is less than the sanctioned limit/drawing power –

(i) there are no credits continuously for more than 90 days as on the date of balance sheet; or

(ii) credits during the aforesaid period are not enough to cover the interest debited during the same period.

(c) Further any amount due to the bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the bank.

(ix) Calculation of sundry debtors as on 31.03.2010

		Rs.
Sundry debtors as on 01.04.2009		50,000
Add: Credit sales		2,50,000
		3,00,000
Add: Cash received from debtors	2,30,000	
Cash received from debtors in transit*	14,000	
Returns from the customers	3,000	
Bad debts @ 2% of Rs.50,000	1,000	
Discount to the customers @ 1% of Rs.50,000	500	2,48,500
Sundry debtors as on 31.03.2010		51,500

(x) The fall in estimated net realisable value of damaged stock Rs.8,000 is the effect of change in accounting estimate. As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the effect of a change in accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate.

Thus, the value of closing stock for the year 2009-10 will be as follows:

	Rs.
Closing Stock (including damaged goods)	50,000
Less: Revised value of damaged goods	(4,000)
Closing stock (excluding damaged goods)	46,000

Question 2

P and Q are partners of P & Co. sharing Profit and Losses in the ratio of 3:1 and Q and R are partners of R & Co., sharing profits and losses in the ratio of 2:1. On 31st March, 2009, they decide to amalgamate and form a new firm M/s PQR & Co., wherein P, Q and R would be partners sharing profits and losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under:

Liabilities	*P & Co. Rs.*	*R & Co. Rs.*	*Assets*	*P & Co. Rs.*	*R & Co. Rs.*
Capitals:			*Fixed assets:*		
P	*2,40,000*	*----*	*Building*	*50,000*	*60,000*
Q	*1,60,000*	*2,00,000*	*Plant & machinery*	*1,50,000*	*1,60,000*

* It is assumed that information for cash in transit has already been received.

R	*----*	*1,00,000*	*Office equipment*	*20,000*	*6,000*
Reserves	*50,000*	*1,50,000*	*Current assets:*		
Sundry creditors	*1,20,000*	*1,16,000*	*Stock-in-trade*	*1,20,000*	*1,40,000*
Due to P & Co.	*----*	*1,00,000*	*Sundry debtors*	*1,60,000*	*2,00,000*
Bank overdraft	*80,000*	*-----*	*Bank balance*	*30,000*	*90,000*
			Cash in hand	*20,000*	*10,000*
			Due from R & Co.	*1,00,000*	*-----*
	6,50,000	*6,66,000*		*6,50,000*	*6,66,000*

The amalgamated firm took over the business on the following terms:

(a) Building of P & Co. was valued at Rs.1,00,000.

(b) Plant and machinery of P & Co. was valued at Rs.2,50,000 and that of R & Co. at Rs.2,00,000.

(c) All stock in trade is to be appreciated by 20%.

(d) Goodwill valued of P & Co. at Rs.1,20,000 and R & Co. at Rs.60,000, but the same will not appear in the books of PQR & Co.

(e) Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.

(f) Provisions for doubtful debts has to be carried forward at Rs.12,000 in respect of debtors of P & Co. and Rs.26,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms. *(16 Marks)*

Answer

Balance Sheet of M/s PQR & Co. as at 31st March, 2009

Liabilities		*Rs.*	*Assets*		*Rs.*
Capitals:			Building (Rs.1,00,000 + Rs.60,000)		1,60,000
P	5,52,000		Plant & machinery (Rs.2,50,000+Rs.2,00,000)		4,50,000
Q	3,68,000		Office equipment (Rs.20,000+Rs.6,000)		26,000
R	1,84,000	11,04,000	Stock-in-trade (Rs.1,44,000+Rs.1,68,000)		3,12,000
Sundry creditors (Rs.1,20,000+1,16,000)		2,36,000	Sundry debtors (Rs.1,60,000+ Rs.2,00,000)	3,60,000	
Bank overdraft		80,000	*Less:* Provision for doubtful debts (Rs.12,000+Rs.26,000)	(38,000)	3,22,000

			Bank balance (Rs.30,000+Rs.90,000)		1,20,000
			Cash in hand		30,000*
		14,20,000			14,20,000

In the books of P & Co.

Partners' Capital Accounts

Particulars	*P Rs.*	*Q Rs.*	*Particulars*	*P Rs.*	*Q Rs.*
To Capital A/cs – M/s PQR & Co.	4,89,000	2,43,000	By Balance b/d	2,40,000	1,60,000
			By Reserve (3:1)	37,500	12,500
			By Profit on Realisation A/c (W.N.4)	2,11,500	70,500
	4,89,000	2,43,000		4,89,000	2,43,000

In the books of R & Co.

Partners' Capital Accounts

Particulars	*Q Rs.*	*R Rs.*	*Particulars*	*Q Rs.*	*R Rs.*
To Capital A/cs – M/s PQR & Co.	3,68,000	1,84,000	By Balance b/d	2,00,000	1,00,000
			By Reserve (2:1)	1,00,000	50,000
			By Profit on Realisation (W.N.5)	68,000	34,000
	3,68,000	1,84,000		3,68,000	1,84,000

Working Notes:

1. Computation of purchase considerations

	P & Co. Rs.	*R & Co. Rs.*
Assets:		
Goodwill	1,20,000	60,000

* Rs.20,000+Rs.10,000+Rs.1,53,000+Rs.30,000 –Rs.1,83,000 = Rs.30,000.

	Building	1,00,000	60,000
	Plant & machinery	2,50,000	2,00,000
	Office equipment	20,000	6,000
	Stock-in-trade	1,44,000	1,68,000
	Sundry debtors	1,60,000	2,00,000
	Bank balance	30,000	90,000
	Cash in hand	20,000	10,000
	Due from R & Co.	1,00,000	-
	(A)	9,44,000	7,94,000
Less:	*Liabilities:*		
	Creditors	1,20,000	1,16,000
	Provision for doubtful debts	12,000	26,000
	Due to P & Co.	-	1,00,000
	Bank overdraft	80,000	-
	(B)	2,12,000	2,42,000
Purchase consideration (A-B)		7,32,000	5,52,000

2. Computation of proportionate capital

	Rs.
M/s PQR & Co. (Purchase Consideration) (Rs.7,32,000+ Rs.5,52,000)	12,84,000
Less: Goodwill adjustment	(1,80,000)
Total capital of new firm (Distributed in ratio 3:2:1)	11,04,000
P's proportionate capital	5,52,000
Q's proportionate capital	3,68,000
R's proportionate capital	1,84,000

3. Computation of Capital Adjustments

	P	*Q*	*R*	*Total*
	Rs.	*Rs.*	*Rs.*	*Rs.*
Balance transferred from P & Co.	4,89,000	2,43,000		7,32,000
Balance transferred from R & Co.		3,68,000	1,84,000	5,52,000
	4,89,000	6,11,000	1,84,000	12,84,000
Less: Goodwill written off in the ratio of 3:2:1	(90,000)	(60,000)	(30,000)	(1,80,000)
Existing capital	3,99,000	5,51,000	1,54,000	11,04,000

Proportionate capital	5,52,000	3,68,000	1,84,000	11,04,000
Amount to be brought in (paid off)	1,53,000	(1,83,000)	30,000	

4. In the books of P & Co.

Realisation Account

	Rs.		Rs.
To Building	50,000	By Creditors	1,20,000
To Plant & machinery	1,50,000	By Bank overdraft	80,000
To Office equipment	20,000	By M/s PQR & Co.	7,32,000
To Stock-in-trade	1,20,000	(purchase consideration)	
To Sundry debtors	1,60,000	(W.N.1)	
To Bank balance	30,000		
To Cash in hand	20,000		
To Due from R & Co.	1,00,000		
To Partners' capital A/cs			
P 2,11,500			
Q 70,500	2,82,000		
	9,32,000		9,32,000

5. In the books of R & Co.

Realisation Account

	Rs.		Rs.
To Building	60,000	By Creditors	1,16,000
To Plant & machinery	1,60,000	By Due to P & Co.	1,00,000
To Office equipment	6,000	By M/s PQR & Co.	5,52,000
To Stock-in-trade	1,40,000	(purchase consideration)	
To Sundry debtors	2,00,000	(W.N.1)	
To Bank balance	90,000		
To Cash in hand	10,000		
To Partners' capital A/cs			
Q 68,000			
R 34,000	1,02,000		
	7,68,000		7,68,000

Question 3

Following is the Balance Sheet of XYZ Ltd. as on 31st March, 2010:

Liabilities	Rs.	Assets	Rs.
8,000 - 7½ Preference shares @ Rs.100 each fully paid	8,00,000	Plant and Machinery	8,50,000
1,80,000 Equity shares @ Rs.10 each fully paid	18,00,000	Furniture and Fittings	1,60,000
11% Debentures	10,00,000	Patents and Copyright	60,000
Bank overdraft	1,65,000	Goodwill	35,000
Loan from director	15,000	Investments (at cost)	65,000
Trade creditors	6,20,000	Sundry debtors	12,00,000
		Stock	13,00,000
		Cash in hand	12,000
		Profit & Loss A/c	7,18,000
	44,00,000		44,00,000

Due to heavy losses and overvaluation of assets, the following scheme of reconstruction was finalised:

(i) Preference shareholders will surrender their 20% shares and they have been allotted 9% (new) preference shares for the remaining amount.

(ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement.

(iii) Trade creditors accepted to take over the stock upto the value of Rs.6,20,000.

(iv) Equity shareholders are to accept reduction of Rs.4 per share.

(v) Investment is to be valued at market price i.e., Rs.60,000.

(vi) Sundry debtors and remaining stock is to be valued at 90% of their book value.

(vii) Directors have to forgo their loan in full.

(viii) Patents and Copyright and Goodwill have no more value.

Pass necessary journal entries in the books of XYZ Ltd. assuming that all the legal formalities have been completed. Prepare capital reduction account and Balance Sheet of the company after reduction. *(16 Marks)*

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Answer

In the books of XYZ Ltd.

Journal Entries

			Rs.	Rs.
(i)	7½% Preference share capital A/c	Dr.	8,00,000	
	To 9% Preference share capital A/c			6,40,000
	To Capital reduction A/c			1,60,000
	(Being surrender of 20% shares by 7.5% Preference shareholders and issuance of 9% preference shares for remaining balance as per the scheme of reconstruction)			
(ii)	11% Debentures A/c	Dr.	10,00,000	
	To Debenture holders A/c			10,00,000
	(Being 11% debentures transferred to debenture holders account)			
(iii)	Debenture holders A/c	Dr.	10,00,000	
	To Plant & machinery A/c			8,50,000
	To Capital reduction A/c			1,50,000
	(Being plant and machinery given to debenture holders in full settlement as per the scheme of reconstruction)			
(iv)	Trade creditors A/c	Dr.	6,20,000	
	To Stock A/c			6,20,000
	(Being stock given to trade creditors against their dues as per the scheme of reconstruction)			
(v)	Equity share capital A/c (Rs.10)	Dr.	18,00,000	
	To Equity share capital A/c (Rs.6)			10,80,000
	To Capital reduction A/c			7,20,000
	(Being reduction of Rs.4 per equity share as per the scheme of reconstruction)			
(vi)	Capital reduction A/c	Dr.	10,06,000	
	To Debtors A/c			1,20,000
	To Investment A/c			5,000
	To Stock A/c			68,000
	To Patents and copyright			60,000
	To Goodwill			35,000

	To Profit and Loss A/c			7,18,000
	(Being writing off losses and reduction in the values of assets as per the scheme of reconstruction)			
(vii)	Director's loan A/c	Dr.	15,000	
	To Capital reduction A/c			15,000
	(Being loan forgo by directors as per the scheme of reconstruction)			
(viii)	Capital reduction A/c	Dr.	39,000	
	To Capital reserve A/c			39,000
	(Being balance of capital reduction account transferred to capital reserve account)			

Capital Reduction Account

		Rs.			*Rs.*
To	Provision for doubtful debts A/c	1,20,000	By	7½% Preference share capital A/	1,60,000
To	Investment A/c	5,000	By	11% Debentures A/c	1,50,000
To	Stock A/c	68,000	By	Equity share capital A/c	7,20,000
To	Patents and copyright A/c	60,000	By	Director's loan A/c	15,000
To	Goodwill A/c	35,000			
To	Profit and loss A/c	7,18,000			
To	Capital reserve A/c	39,000			
		10,45,000			10,45,000

Balance Sheet (and reduced) of M/s XYZ Ltd.

Liabilities	*Amount (Rs.)*	*Assets*		*Amount (Rs.)*
6,400, 9% Preference shares of Rs.100 each	6,40,000	Furniture and fittings		1,60,000
1,80,000, Equity shares of Rs.6 each	10,80,000	Investments		60,000
Capital reserve	39,000	Stock		6,12,000
Bank overdraft	1,65,000	Sundry debtors	12,00,000	
		Less: Provision for doubtful debts	(1,20,000)	10,80,000
		Cash in hand		12,000
	19,24,000			19,24,000

Question 4

(a) *Ram Limited of Chennai has a branch at Nagpur to which office, goods are invoiced at cost plus 25%. The branch makes sales both for cash and on credit. Branch expenses are paid direct from Head Office and the branch has to remit all cash received into the Head Office Bank Account at Nagpur.*

From the following details, relating to the year 2009, prepare the accounts in Head Office Ledger and ascertain Branch Profit as per stock and debtors method. Branch does not maintain any books of accounts, but sends weekly returns to head office:

	Rs.
Goods received from head office at invoice price	1,20,000
Returns to head office at invoice price	2,400
Stock at Nagpur branch on 1.1.2009 at invoice price	12,000
Sales during the year – Cash	40,000
Credit	72,000
Debtors at Nagpur branch as on 1.1.2009	14,400
Cash received from debtors	64,000
Discounts allowed to debtors	1,200
Bad debts during the year	800
Sales returns at Nagpur branch	1,600
Salaries and wages at branch	12,000
Rent, rates and taxes at branch	3,600
Office expenses at Nagpur branch	1,200
Stock at branch on 31.12.2009 at invoice price	24,000

(b) *From the following information furnished to you by Ayushman Insurance Co. Ltd., you are required to pass Journal entries relating to unexpired risk reserve and show in columnar form "Unexpired Risks Reserve Account" for 2009.*

(a) *On 31.12.2008, it had reserve for unexpired risks amounting to Rs.40 crores. It comprised of Rs.15 crores in respect of marine insurance business, Rs.20 crores in respect of fire insurance business and Rs.5 crores in respect of miscellaneous insurance business.*

(b) *Ayushman Insurance Co. Ltd. creates reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.*

(c) *During 2009, the following business was conducted:*

	Marine	Fire	Miscellaneous
		(Amount in crores)	
Premium collected from:			
(a) Insured in respect of policies issued	*18.00*	*43.00*	*12.00*
(b) Other insurance companies in respect of risks undertaken	*7.00*	*5.00*	*4.00*
Premium paid/payable to other insurance companies on business ceded	*6.70*	*4.30*	*7.00*

(8+8=16 Marks)

Answer

(a) Nagpur Branch Stock Account

	Particulars	*Amount (Rs.)*		*Particulars*	*Amount (Rs.)*
To	Balance b/d	12,000	By	Goods sent to branch A/c (Returns)	2,400
To	Goods sent to branch A/c	1,20,000	By	Bank A/c (Cash sales)	40,000
To	Branch debtors A/c (Returns)	1,600	By	Branch debtors A/c (credit sales)	72,000
To	Branch adjustment A/c (Surplus over invoice price)	4,800	By	Balance c/d	24,000
		1,38,400			1,38,400

Nagpur Branch Adjustment Account

	Particulars	*Amount (Rs.)*		*Particulars*	*Amount (Rs.)*
To	Stock reserve - 20% of Rs.24,000 (closing stock)	4,800	By	Stock reserve - 20% of Rs.12,000 (Opening stock)	2,400
To	Branch profit & loss A/c (Gross profit)	25,920	By	Goods sent to branch A/c – 20% of Rs.1,17,600	23,520
			By	Branch stock A/c	4,800
		30,720			30,720

Branch Profit & Loss Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
To	Branch expenses A/c	16,800	By	Branch adjustment A/c (Gross Profit)	25,920
To	Branch debtors A/c (Discount)	1,200			
To	Branch debtors A/c (Bad Debts)	800			
To	Net profit (transferred to Profit & Loss A/c)	7,120			
		25,920			25,920

Branch Expenses Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
To	Bank A/c (Rent, rates & taxes)	3,600	By	Branch profit and loss A/c (Transfer)	16,800
To	Bank A/c (Salaries & wages)	12,000			
To	Bank A/c (Office expenses)	1,200			
		16,800			16,800

Branch Debtors Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
To	Balance b/d	14,400	By	Bank A/c	64,000
To	Branch stock A/c	72,000	By	Branch profit and loss A/c (Bad debts and discount)	2,000
			By	Branch stock A/c (Sales returns)	1,600
			By	Balance c/d (bal.fig.)	18,800
		86,400			86,400

Goods sent to Branch Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch stock A/c	2,400	By Branch stock A/c	1,20,000
To Branch adjustment A/c	23,520		
To Purchases A/c	94,080		
	1,20,000		1,20,000

(b) In the books of Ayushman Insurance Co. Ltd.

Journal Entries

Date	Particulars		(Rs. in crores) Dr.	Cr.
1.1.2009	Unexpired Risk Reserve (Fire) A/c	Dr.	20.00	
	Unexpired Risk Reserve (Marine) A/c	Dr.	15.00	
	Unexpired Risk Reserve (Miscellaneous) A/c	Dr.	5.00	
	To Fire Revenue Account			20.00
	To Marine Revenue Account			15.00
	To Miscellaneous Revenue Account			5.00
	(Being unexpired risk reserve brought forward from last year)			
31.12.2009	Marine Revenue A/c	Dr.	18.30	
	To Unexpired Risk Reserve A/c			18.30
	(Being closing reserve for unexpired risk created at 100% of net premium income amounting to Rs.18.3 crores i.e.18+7-6.70)			
	Fire Revenue A/c	Dr.	21.85	
	To Unexpired Risk Reserve A/c			21.85
	(Being closing reserve for unexpired risk created at 50% of net premium income of Rs.43.7 crores i.e.43+5-4.30)			
	Miscellaneous Revenue A/c	Dr.	4.50	
	To Unexpired Risk Reserve A/c			4.50
	(Being closing reserve for unexpired risk created at 50% net premium income of Rs.9 crores i.e. 12+4-7)			

Unexpired Risk Reserve Account

Date	Particulars	Marine (Rs.)	Fire (Rs.)	Misc. (Rs.)	Date	Particulars	Marine (Rs.)	Fire (Rs.)	Misc. (Rs.)
1.1.2009	To Revenue A/c	15.00	20.00	5.00	1.1.2009	By Balance b/d	15.00	20.00	5.00
31.12.2009	To Balance c/d	18.30	21.85	4.50	31.12.2009	By Revenue A/c	18.30	21.85	4.50
		33.30	41.85	9.50			33.30	41.85	9.50

Question 5

(a) *Given below is an extract from the trial balance of T.K. Bank Limited as on 31st December, 2009:*

Particulars	*Debit Rs.*	*Credit Rs.*
Bills discounted	*12,64,000*	*----*
Rebate on bills discounted (1.1.2009)	*----*	*8,340*
Discount received for the year		*85,912*

An analysis of the bills discounted is shown below:

Amount Rs.	*Due date in 2010*	*Rate of discount (% p.a.)*
1,40,000	*March 6th*	*5*
4,36,000	*March 12th*	*4.5*
2,82,000	*March 26th*	*6*
4,06,000	*April 6th*	*4*

Show the workings, how the relevant items will appear in the bank's Profit and Loss account as on 31st December, 2009 and in bank's Balance Sheet as on 31st December, 2009.

(b) *From the following Trial Balance of PQ Ltd. on 31.12.2009, prepare liquidators' final statement of account:*

	Rs.	*Rs.*
9% Preference share capital	*----*	*1,25,000*
(1,250 Preference shares @ Rs.100 each fully paid up)		
Equity share capital:		
2,000 Equity shares @ Rs.100 each fully paid up	*---*	*2,00,000*
2,000 Equity shares @ Rs.100 each, Rs.50 paid up	*----*	*1,00,000*

Plant	*3,00,000*	
Stock-in-trade	*3,60,000*	
Sundry debtors	*85,000*	*---*
Sundry creditors	*---*	*2,21,000*
Bank balance	*1,20,000*	
Preliminary expenses	*6,000*	*---*
6% Mortgage loan	*----*	*2,30,000*
Outstanding liabilities for expenses	*---*	*25,000*
Profit and loss account	*30,000*	
(Trading loss for the year 2009)		
	9,01,000	*9,01,000*

Following points should be kept in mind:

(i) On 21st January, 2010 the liquidator of PQ Ltd. sold plant for Rs.2,95,000 and stock in trade at 10% less than the book value. He realised 80% of Sundry debtors and incurred cost of collection of Rs.1,850 (remaining debtors are to be treated as bad).

(ii) The loan mortagage was discharged on 31st January, 2010 along with interest for 6 months. Creditors were discharged subject to 5% discount. Outstanding expenses paid at 20% less.

(iii) Preference share dividend is due for one year and paid with final payment.

(iv) Liquidation expenses incurred are Rs.1,800 and liquidators remuneration is settled at 4% on disbursement to members (excluding preference dividend), subject to minimum of Rs.10,000. *(8+8=16 Marks)*

Answer

(a) Profit & Loss Account (an extract)

for the period ending 31.12.2009

	Rs.
Transfer from 'Rebate on bills discounted account' (01.01.2009)	8,340
Add: Discount for the year 2009	85,912
	94,252
Less: Rebate on bills discounted carried forward to the year 2010	13,274
	80,978

Balance Sheet (an extract) as on 31.12.2009

	Rs.
Other liabilities & provisions:	
Rebate on bills discounted	13,274

Working Note:

Statement of rebate on bills discounted as on 31.12.2009

Due date	*Amount (Rs.)*	*No. of days after 31.12.2009*	*Rate of discount (%)*	*Discount of the unexpired period*
March 6th	1,40,000	65	5	1,247
March 12th	4,36,000	71	4.5	3,816
March 26th	2,82,000	85	6	3,940
April 6th	4,06,000	96	4	4,271
Total rebate on bills discounted to be carried forward				13,274

(b) PQ Ltd.

Liquidator's Final Statement of Account

	Receipts		*Rs.*		*Payment*		*Rs.*
To	Assets realised:			By	Liquidation expenses		1,800
	Bank	1,20,000		By	Liquidator's remuneration (W.N.1)		12,510
				By	Mortgage loan	2,30,000	
	Plant	2,95,000			*Add:* Interest for 6 months	6,900	2,36,900
	Stock	3,24,000		By	Unsecured creditors		2,09,950
	Debtors			By	Outstanding liabilities		20,000
	(Rs.68,000 – Rs.1,850)	66,150	8,05,150	By	Preference shareholders:		
					Preference share capital	1,25,000	
					Arrears of dividend	11,250	1,36,250
				By	Equity shareholders		
					Rs.50 on 2,000 fully paid shares		1,00,000
					Rs.21.935 on 4,000 equity shares (W.N.2)		87,740
			8,05,150				8,05,150

Working Notes:

1. Liquidator's remuneration

	Rs.
Available surplus	3,25,250*
Less: Liquidator's remuneration @ 4% (Rs. 3,25,250 x $\frac{4}{104}$)	(12,510)
Balance to be paid to Members	3,12,740

2. Disposal of amount to members

	Rs.
Balance available for members	3,12,740
Less: Preference share capital	(1,25,000)
	1,87,740
Less: Rs.50 on 2,000 fully paid Equity shares	(1,00,000)
Rs.21.827 on 4,000 Equity shares	87,740

Question 6

(a) *Chaitanya Limited issues 40,000 shares. Issue is underwritten by A, B and C in the ratio of 5:3:2 respectively. Unmarked applications totalled 2,000 whereas marked applications are as follows:*

Underwriters	*Application (Number of debentures)*
A	*16,000*
B	*5,700*
C	*8,300*

Calculate the net liability of each one of the underwriters.

(b) *How will you disclose the following Ledger balances in the Final accounts of DVD bank:*

	Rs. in lacs
Current accounts	*700*
Saving accounts	*500*
Fixed deposits	*700*
Cash credits	*600*
Term Loans	*500*
Bills discounted & purchased	*800*

* Surplus available

= Rs.8,07,000 – Rs.1,800 – Rs.2,36,900 – Rs.2,09,950 – Rs.1,850 - Rs.20,000 – Rs.11,250 = Rs.3,25,250.

Additional information:

(i) Included in the current accounts ledger are accounts overdrawn to the extent of Rs.250 lacs.

(ii) One of the cash credit account of Rs.10 lacs (including interest Rs.1 lac) is doubtful.

(iii) 60% of term loans are secured by government guarantees, 20% of cash credits are unsecured, other portion is secured by tangible assets.

(c) B&P Ltd. availed a lease from N&L Ltd. The conditions of the lease terms are as under:

(i) Lease period is 3 years, in the beginning of the year 2009, for equipment costing Rs.10,00,000 and has an expected useful life of 5 years.

(ii) The Fair market value is also Rs.10,00,000.

(iii) The property reverts back to the lessor on termination of the lease.

(iv) The unguaranteed residual value is estimated at Rs.1,00,000 at the end of the year 2011.

(v) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%.

The present value of Re.1 due at the end of 3rd year at 10% rate of interest is Re.0.7513.

The present value of annuity of Re.1 due at the end of 3rd year at 10% IRR is Rs.2.4868.

State whether the lease constitute finance lease and also calculate unearned Finance income.

(d) ABC Electricity Company laid down a main at a cost of Rs.24,00,000. Some years later the company replaced by improving the plant 2/3 portion of the main at a cost of Rs.40,00,000. The cost of material and labour having gone up by 25%. Sale of old material realised Rs.95,000. Old material value Rs.1,05,000 were used in renewal (including in above).

Calculate the amount to be capitalised and show the journal entries for recording the transaction. *(4 Marks each = 16 Marks)*

Answer

(a) Statement showing net liability of underwriters

		A	B	C	Total
Gross liability		20,000	12,000	8,000	40,000
Less:	Unmarked applications in the ratio of 5:3:2	(1,000)	(600)	(400)	(2,000)
		19,000	11,400	7,600	38,000
Less:	Marked applications	(16,000)	(5,700)	(8,300)	(30,000)
		3,000	5,700	(700)	8,000

Credit of C's surplus to A and B in the ratio of 5:3	(438)	(262)	700	-
Net liability	2,562	5,438	-	8,000

(b) Relevant Schedules (forming part of the Balance sheet) of DVD Bank

Schedule 3: Deposits

		Rs. in lacs
A	Demand deposits (700 – .250)	450
B	Saving bank deposits	500
C	Term deposits	700
		1,650

Schedule 9: Advances

			Rs. in lacs
A	(i)	Bills discounted and purchased	800
	(ii)	Cash credits and overdrafts (600 + 250)	850
	(iii)	Term loans	500
			2,150
B.	(i)	Secured by tangible assets (bal. fig.)	1,730
	(ii)	Secured by Bank/Government guarantees (500 x 60%)	300
	(iii)	Unsecured (600 x 20%)	120
			2,150

Schedule 5: Other Liabilities & Provisions

	Rs. in lacs
Others (Provision for doubtful debts)	10

Profit and Loss Account (an extract)

	Rs. in lacs
Less: Provision for doubtful debts*	10

*Note: It is assumed that the cash credit has been in 'doubtful' category for more than three years.

(c) (i) Computation of annual lease payment to the lessor

	Rs.
Cost of equipment	10,00,000
Unguaranteed residual value	1,00,000
Present value of residual value after third year @ 10% (Rs.1,00,000 × 0.7513)	75,130
Fair value to be recovered from lease payments (Rs.10,00,000 – Rs.75,130)	9,24,870
Present value of annuity for three years is 2.4868	
Annual lease payment = Rs. 9,24,870/ 2.4868	3,71,911.70

The present value of lease payment i.e., Rs.9,24,870 equals 92.48% of the fair market value i.e., 10,00,000. As the present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) covers the major part of the life of asset (i.e. 5 years). Therefore, it constitutes a finance lease.

(ii) Computation of Unearned Finance Income

	Rs.
Total lease payments (Rs.3,71,911.70 x 3)	11,15,735
Add: Unguaranteed residual value	1,00,000
Gross investment in the lease	1,215,735
Less: Present value of investment (lease payments and residual value) (Rs.75,130 + Rs.9,24,870)	(10,00,000)
Unearned finance income	2,15,735

(d) Statement showing amount to be capitalised

	Rs.
Cash cost of building new main	38,95,000
Add: Value of old material used in the construction of new main	1,05,000
	40,00,000
Less: Estimated current cost of replacing old plant (Refer W.N.)	(20,00,000)
Total amount to be capitalized	20,00,000

In the books of ABC Electricity Company

Journal Entries

		Rs.	Rs.
Replacement A/c	Dr.	20,00,000	
To Bank			20,00,000
(Being current cost of replacement)			
New Main A/c	Dr.	20,00,000	
To Bank			18,95,000
To Replacement			1,05,000
(Being additional cost of New Main to be capitalised)			
Bank A/c	Dr.	95,000	
To Replacement			95,000
(Being the sale of old materials)			
Revenue A/c (Refer W.N.)	Dr.	18,00,000	
To Replacement			18,00,000
(Being the replacement cost to be written off to revenue)			

Working Note:

Statement showing amount to be written off to Revenue Account

		Rs.
Cost of old plant		24,00,000
Replacement of 2/3 portion of old plant (Rs.24,00,000 x $\frac{2}{3}$)		16,00,000
Add: 25% increase in cost of material and labour		4,00,000
Current cost of old plant		20,00,000
Less: Cost of material used	1,05,000	
Cost of material sold	95,000	(2,00,000)
Amount to be written off to Revenue A/c		18,00,000