PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2016 EXAMINATION

A. Applicable for November, 2016 Examination

(i) Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 30th April, 2016 will be applicable for November, 2016 Examination.

(ii) Maintenance of Statutory Liquidity Ratio (SLR)

As per Notification No. DBR.No.Ret.BC.64/12.01.001/2015-16 dated December 10, 2015, the SLR of Scheduled Commercial Banks, Local Area Banks, primary (Urban) co-operative banks (UCBs), state co-operative banks and central co-operative banks from 21.5 per cent of their Net Demand and Time Liabilities (NDTL) to:

(i) 21.25 per cent from April 2, 2016;
(ii) 21.00 per cent from July 9, 2016;
(iii) 20.75 per cent from October 1, 2016; and
(iv) 20.50 per cent from January 7, 2017

of their total net demand and time liabilities in India as on the last Friday of the second preceding fortnight, valued in accordance with the method of valuation specified by the Reserve Bank from time to time.

Students may note that SLR of 21.25% SLR is applicable for November, 2016 exam.

(iii) Maintenance of Cash Reserve Ratio (CRR)

Reserve Bank of India has decided to reduce the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks by 25 basis points from 4.25 per cent to *4.00 per cent of their Net Demand and Time Liabilities (NDTL)* with effect from the fortnight beginning February 09, 2013 vide circular DBOD.No.Ret.BC.76/ 12.01.001/2012-13 dated January 29, 2013. The Local Area Banks shall also maintain CRR at 3.00 per cent of its net demand and time liabilities up to February 08, 2013 and 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

B. Not applicable for November, 2016 examination

I. Non-Applicability of Ind ASs for November, 2016 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS have not been made applicable for November, 2016 Examination.

II. Non-applicability of Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006 and Companies (Indian Accounting Standards) Rules, 2015

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 and Companies (Indian Accounting Standards) Rules, 2015 have not been made applicable for November, 2016 examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Partnership Accounts

Dissolution of a partnership firm

1. A partnership firm was dissolved on 30th June, 2016. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	₹	₹	Assets	₹
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		2,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹ 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2016	25,200
On 30th August, 2016	60,000
On 15th September, 2016	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

Amalgamation of partnership firms

2. Vinod and Raj are partners of M/s Vinod and Co., sharing profits and losses in the ratio of 3 : 1 and Raj and Kumar are partners of M/s Raj & Co., sharing profits and losses in the ratio of 2: 1. On 31st March, 2016, they decide to amalgamate and form a new firm M/s VRK & Co., wherein Vinod, Raj and Kumar 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	Vinod & Co.	Raj & Co.	Assets	Vinod & Co.	Raj & Co.
	₹	₹		₹	₹
Capitals:			Fixed Assets:		
Vinod	9,60,000	–	Building	2,00,000	-
Raj	6,40,000	8,00,000	Machinery	6,00,000	6,40,000
Kumar	-	4,00,000	Furniture	80,000	24,000
Reserves	2,00,000	6,00,000	Current Assets:		
Creditors	4,80,000	4,64,000	Stock	4,80,000	5,60,000
Due to Vinod & Co.	-	4,00,000	Debtors	6,40,000	8,00,000
Bank Loan	3,20,000	-	Cash at Bank	1,20,000	3,60,000
			Cash in hand	80,000	40,000
			Due from Raj & Co.	4,00,000	-
			Advances	-	2,40,000
	26,00,000	26,64,000		26,00,000	26,64,000

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

(a) Building of Vinod & Co., was valued at ₹ 4,00,000.

(b) Machinery of Vinod & Co., was valued at ₹ 9,00,000 and that of Raj & Co. at ₹ 8,00,000.

(c) Goodwill valued Vinod and Co. ₹ 2,00,000 and Raj & Co., ₹ 1,64,000 but the same will not appear in the books of VRK & Co.,

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

You are required to pass journal entries in the books of M/s VRK & Co. and prepare the Balance Sheet as at 31.3.2016.

Conversion of Partnership firm to Company

3. A, B and C share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2016 was as follows:

Liabilities	₹	*Assets*		₹
Capital Accounts:		Goodwill		10,000
A	70,000	Land		20,000
B	80,000	Buildings		1,10,000
C	10,000	Machinery		50,000
General Reserve	18,000	Motor Car		28,000
Investment Fluctuation Fund	4,000	Furniture		12,000
C Loan	33,000	Investments		18,000
Mrs. A's loan	15,000	Loose tools		7,000
Creditors	96,000	Stock		18,000
Bills Payable	14,000	Bills receivable		20,000
Bank overdraft	60,000	Debtors:	40,000	
		Less: Provision	2,000	38,000
		Cash		1,000
		C's current A/c		56,000
		Profit and Loss A/c		12,000
	4,00,000			4,00,000

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

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

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

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

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

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

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

You are required to prepare the necessary ledger accounts.

Sale of Partnership firm

4. Mohit, Neel and Om were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm 31st March, 2016 was the following:

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

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

You are provided the following information:

1. Machinery is to be transferred at ₹ 1,40,000.

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

You are required to prepare:

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

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

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

Employees Stock Option Plan

5. Kanika Ltd. provides you the following information:

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

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

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

Buy Back of Securities

6. Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

Redemption of Debentures

7. Soumya Limited recently made a public issue in respect of which the following information is available:

   (a) No. of partly convertible debentures issued 2,00,000; face value and issue price ₹ 100 per debenture.

   (b) Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.

   (c) Date of closure of subscription lists 1.5.2015, date of allotment 1.6.2015, rate of interest on debenture 15% payable from the date of allotment, value of equity share for the purpose of conversion ₹ 60 (Face Value ₹ 10).

   (d) Underwriting Commission 2%.

   (e) No. of debentures applied for 1,50,000.

   (f) Interest payable on debentures half-yearly on 30th September and 31st March.

   Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2016 (including cash and bank entries).

Amalgamation of Companies

8. The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2016:

Liabilities	₹	*Assets*	₹
8,000 equity shares of ₹ 100 each	8,00,000	Building	3,40,000
10% debentures	4,00,000	Machinery	6,40,000
Loans	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Goodwill	1,30,000
		Share issue Expenses	34,000
	17,60,000		17,60,000

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

(1) B Ltd. would take over all assets, except bank balance at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) B Ltd. is to take over trade payables at book value.

(3) The purchase consideration is to be paid in cash to the extent of ₹ 6,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 1,24,400. The liquidation expenses amounted to ₹ 16,000. B Ltd. sold prior to 31st March, 2015 goods costing ₹ 1,20,000 to A Ltd. for ₹ 1,60,000. ₹ 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2015. Trade payables of A Ltd. include ₹ 40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2016 after the takeover.

Internal Reconstruction of a Company

9. The summarised Balance Sheet of M/s. Ice Ltd. as on 31-03-2016 is given below:

Liabilities		₹	Assets	₹
1,00,000 Equity shares of ₹ 10 each fully paid up		10,00,000	Freehold property Plant and machinery	5,50,000 2,00,000
4,000, 8% Preference shares of ₹ 100 each fully paid		4,00,000	Trade investment (at cost) Trade receivables	2,00,000 4,50,000
6% Debentures	4,00,000		Inventories-in trade	3,00,000
(secured by freehold property)			Profit and loss account	5,25,000
Arrear interest	24,000	4,24,000		
Trade payables		1,01,000		
Director's loan		3,00,000		
		22,25,000		22,25,000

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective stakeholders:

(i) Preference shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each.

(ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of ₹ 2 each to be allotted.

(iii) Debentureholders agreed to take one freehold property at its book value of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(iv) Arrear debenture interest to be paid in cash.

(v) Remaining freehold property to be valued at ₹ 4,00,000.

(vi) Investment sold out for ₹ 2,50,000.

(vii) 75% of Director's loan to be waived and for the balance, equity shares of ₹ 2 each to be allotted.

(viii) 40% of Trade receivables, 80% of Inventories and 100% of debit balance of profit and loss account to be written off.

(ix) Company's contractual commitments amounting to ₹ 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme.

Liquidation of Company

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

Share capital issued:

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

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

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

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

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

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

You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2½% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors. Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

Financial Statements of Insurance Companies

11. On 31st March, 2016 the books of Lal Insurance Company Limited, contained the following particulars in respect of fire insurance:

Particulars	Amount
	₹
Reserve for unexpired risks on March 31 2015	10,00,000
Additional Reserve for unexpired risks on March 31 2015	2,00,000
Premiums	22,40,000
Claims paid	12,80,000
Estimated liability in respect of outstanding claims:	
On March 31 2015	1,30,000
On March 31 2016	1,80,000
Expenses of management (including ₹ 60,000 legal expenses paid in connection with the claims)	5,60,000
Interest and dividend	1,28,500
Income tax on the above	13,040
Profit on sale of investments	22,000
Commission paid	3,04,000

On 31st March, 2015 provide ₹ 11,20,000 as unexpired risk reserve and ₹ 1,50,000 as additional reserve.

You are required to prepare the Fire Insurance Revenue account as per regulations of IRDA, for the year ended 31st March, 2015.

Financial Statements of Banking companies

12. Given below is an extract from the trial balance of PT Bank Limited as on 31st December, 2015:

Particulars	Debit (₹)	Credit (₹)
Bills discounted	6,32,000	----
Rebate on bills discounted (1.1. 2015)	----	4,170
Discount received for the year		42,956

An analysis of the bills discounted is shown below:

Amount ₹	Due date in 2016	Rate of discount (% p.a.)
70,000	March 6th	5
2,18,000	March 12th	4.5
1,41,000	March 26th	6
2,03,000	April 6th	4

Show the workings, how the relevant items will appear in the bank's Profit and Loss account as on 31st December, 2015 and in bank's Balance Sheet as on 31st December, 2015.

Departmental Accounts

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

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

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

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

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

Find out correct Departmental Profits after charging Managers' Commission. Branch Accounting

Branch Accounting

14. From the following particulars relating to Pune branch for the year ending December 31, 2015, prepare Branch Account in the books of Head office.

		₹
Stock at Branch on January 1, 2015		10,000
Branch Debtors on January 1, 2015		4,000
Branch Debtors on Dec. 31, 2015		4,900
Petty cash at branch on January 1, 2015		500
Furniture at branch on January 1, 2015		2,000
Prepaid fire insurance premium on January 1, 2015		150
Salaries outstanding at branch on January 1, 2015		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Insurance up to March 31, 2016	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2015		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

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

Foreign branch

15. Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes

you with its trial balance as on 31st March, 2016 and the additional information given thereafter:

	Dr.($)	Cr.($)
Stock on 1st April, 2015	300	–
Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	–
Bank balance	420	–
Delhi office A/c	–	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- on 1.4.2015 @ ₹40 per US $
- on 31.3.2016@ ₹42 per US $
- average exchange rate for the year @ ₹ 41 per US $.

New York branch account showed a debit balance of ₹ 44,380 on 31.3.2016 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in ₹ in the books of Ganesh Ltd.

Problems based on Accounting Standards

AS 4 Contingencies and Events Accruing after Balance Sheet Date

16. 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?

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

17 Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of ₹10 Lakhs by selling the said land. There was a fire in the factory and a

part of the unused factory shed valued at ₹ 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹2 lakhs was disclosed as net profit from sale of assets. Do you agree with the treatment and disclosure? If not, state your views.

AS 11 The Effects of Changes in Foreign Exchange Rates

18. (a) "The company had a engineering contract with a foreign government, work to be carried out in foreign country and payments to be received in dollars. The work was completed in the year 2015, and the entire contracted amount was duly recorded in the books of the company at the prevalent exchange rate on the date of completion of the work. However, payments to the extent of ₹ 40 crores could not be released by the Foreign Government because of temporary foreign exchange crisis in that country. This ₹ 40 crores unrealized at the end, if converted at the year end rate would amount to ₹ 40.50 croes. The Company has adopted and follows the following accounting policy:

"In respect of foreign currency transactions, current assets and current liabilities are revalued at year end rates. However, if there is a net loss, due to exchange difference, the same is charged off to the P&L account, but if there is a net gain, the same is ignored in view of the prudent accounting policies of not recording unrealized gains due to exchange rate fluctuations".

Comment on the appropriateness of the above.

AS 12 Accounting for Government Grants

(b) D Ltd. acquired a machine on 01-04-2012 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	₹
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

How should the company deal with this asset in its accounts for 2015-16? Can it charge depreciation or negative depreciation for 2015-16? Can it credit ₹ 8,00,000 to Capital Reserve?

AS 16 Borrowing Costs

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

AS 19 Leases

(b) Annual lease rent = ₹ 80,000 at the end of each year

Lease period = 5 years

Guaranteed residual value = ₹ 28,000

Fair value at the inception (beginning) of lease = ₹ 3,00,000

Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7, 0.622, 0.552 at the end of first, second, third, fourth and fifth year respectively.

Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

AS 26 Intangible Assets

20. (a) K Ltd. launched a project for producing product X in October, 2015. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2016. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

(b) The company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier. Comment.

SUGGESTED ANSWERS/HINTS

1. Statement showing distribution of cash amongst the partners

	Creditors	*B's Loan*	*A*	*B*	*C*
2016	₹	₹	₹	₹	₹
June 30 Balance b/d	30,000	10,000	76,000	48,000	36,000

Cash balance less Provision for expenses (₹ 10,800 – ₹ 5,400)	5,400	-	-	-	-
Balances unpaid	24,600	10,000	76,000	48,000	36,000
July 5					
1st Instalment of ₹ 25,200	23,600	1,600	-	-	-
Discount received on full settlement	1,000	8,400	76,000	48,000	36,000
Less: Transferred to Realisation A/c	1,000				
	Nil				
August 30					
2nd instalment of ₹ 60,000 (W.N. 2)		8,400	32,640	4,640	14,320
Balance unpaid		Nil	43,360	43,360	21,680
September 15					
Amount realised ₹ 80,000					
Add: Balance out of the Provision for Expenses A/c 1,400					
81,400			32,560	32,560	16,280
Amount unpaid being loss on Realisation in the ratio of 2 : 2 : 1			10,800	10,800	5,400

Working Notes:

1. Highest relative capital basis

		A	B	C
		₹	₹	₹
1.	Present Capitals	76,000	48,000	36,000
2.	Profit-sharing ratio	2	2	1
3	Capital per unit of Profit share (1 ÷ 2)	38,000	24,000	36,000
4.	Proportionate capitals taking B, whose capital is the least, as the basis	48,000	48,000	24,000
5.	Excess capital (1-4)	28,000	Nil	12,000
6.	Profit-sharing ratio	2	-	1
7.	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000

8.	Proportionate capitals as between A and C taking C capital as the basis	24,000	-	12,000
9.	Excess of A's Capital over C's Excess capital (5-8)	4,000	-	-
10.	Balance of Excess capital (5-9)	24,000		12,000
11.	Distribution sequence:			
	First ₹ 4,000 (2 : 0 : 0)	4,000	-	-
	Next ₹ 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over ₹ 40,000 (2 : 2 : 1)			

2. Distribution of Second instalment

		Creditors	*A*	*B*	*C*
First	₹ 8,400	8,400	-	-	-
Next	₹ 4,000 (2 : 0 : 0)		4,000	-	-
Next	₹ 36,000 (2 : 0 : 1)		24,000	-	12,000
Balance	₹ 11,600 (2 : 2 : 1)		4,640	4,640	2,320
	60,000	8,400	32,640	4,640	14,320

2. Journal Entries

In the books of VRK& Co.

Particulars		*Dr. (₹)*	*Cr. (₹)*
Goodwill A/c	Dr.	2,00,000	
Building A/c	Dr.	4,00,000	
Machinery A/c	Dr.	9,00,000	
Furniture A/c	Dr.	80,000	
Stock A/c	Dr.	4,80,000	
Debtors A/c	Dr.	6,40,000	
Cash at Bank A/c	Dr.	1,20,000	
Cash in hand A/c	Dr.	80,000	
Due from Raj & Co. A/c	Dr.	4,00,000	
To Creditors A/c			4,80,000
To Bank Loan A/c			3,20,000
To Vinod's Capital A/c			16,35,000
To Raj's Capital A/c			8,65,000

(Being the Assets and Liabilities of Vinod & Co. taken over)			
Goodwill A/c	Dr.	1,64,000	
Machinery A/c	Dr.	8,00,000	
Furniture A/c	Dr.	24,000	
Stock A/c	Dr.	5,60,000	
Debtors A/c	Dr.	8,00,000	
Cash at Bank A/c	Dr.	3,60,000	
Cash in hand A/c	Dr.	40,000	
Advances A/c	Dr.	2,40,000	
To Creditors A/c			4,64,000
To Due to Vinod & Co. A/c			4,00,000
To Raj's Capital A/c			14,16,000
To Kumar’s Capital A/c			7,08,000
(Being the Assets and Liabilities of Raj & Co. taken over)			
Vinod’s Capital A/c	Dr.	1,82,000	
Raj’s Capital A/c	Dr.	1,21,334	
Kumar’s Capital A/c	Dr.	60,666	
To Goodwill A/c	Dr.		3,64,000
(Being Goodwill written off)			
Bank A/c	Dr.	7,39,666	
To Vinod’s Capital A/c			6,77,000
To Kumar’s Capital A/c			62,666
(Being the Cash brought in by Vinod and Kumar to make capitals proportionate)			
Raj’s Capital A/c	Dr.	7,39,666	
To Bank A/c			7,39,666
(Being the excess capital withdraw by Raj)			
Due to Vinod & Co. A/c	Dr.	400,000	
To Due from Raj & Co. A/c			4,00,000
(Being the elimination of mutual indebtedness of the merged firms Vinod & Co., and Raj & Co.			

Balance Sheet of M/s VRK& Co. as at 31st March, 2016

Liabilities	₹	*Assets*	₹
Capitals:		Building	4,00,000
Vinod	21,30,000	Machinery	17,00,000
Raj	14,20,000	Furniture	1,04,000
Kumar	7,10,000	Stock	10,40,000
Creditors	9,44,000	Debtors	14,40,000
Bank Loan	3,20,000	Advances	2,40,000
		Cash at Bank	4,80,000
		Cash in hand	1,20,000
	55,24,000		55,24,000

Working Notes:

1. Statement showing the Computation of Purchase Consideration

Particulars		*Vinod & Co.*	*Raj & Co.*
		₹	₹
A.	Assets		
	Goodwill	2,00,000	1,64,000
	Building	4,00,000	
	Machinery	9,00,000	8,00,000
	Furniture	80,000	24,000
	Stock	4,80,000	5,60,000
	Debtors	6,40,000	8,00,000
	Cash at Bank	1,20,000	3,60,000
	Cash in hand	80,000	40,000
	Due from Raj & Co.	4,00,000	--
	Advances	--	2,40,000
		33,00,000	29,88,000
B.	Liabilities		
	Creditors	4,80,000	4,64,000
	Due to Vinod & Co.	--	4,00,000
	Bank Loan	3,20,000	--
		8,00,000	8,64,000
C.	Purchase consideration (A-B)	25,00,000	21,24,000

2. Statement showing the Computation of Proportionate Capitals

Particulars	₹
A. M/s VRK & Co. (₹ 25,00,000+₹ 21,24,000)	46,24,000
B. Less: Goodwill Adjustment	(3,64,000)
C. Total Capital of new Firm	42,60,000
D. Vinod's proportionate Capital (₹ 42,60,000 x 3/6)	21,30,000
E. Raj's proportionate Capital (₹ 42,60,000 x 2/6)	14,20,000
F. Kumar's Proportionate Capital (₹ 42,60,000 x 1/6)	7,10,000
	42,60,000

3. Statement showing the Computation of Capital Adjustments

Particulars	Vinod	Raj	Kumar	Total
	₹	₹	₹	₹
Balance transferred from Vinod and Co. (W.N. 4)	16,35,000	8,65,000	-	25,00,000
Balance transferred from Raj and Co. (W.N.5)	-	14,16,000	7,08,000	21,24,000
	16,35,000	22,81,000	7,08,000	46,24,000
Less: Goodwill written off in the ratio of (3:2:1)	(1,82,000)	(1,21,334)	(60,666)	(3,64,000)
(a) Existing Capital	14,53,000	21,59,666	6,47,334	42,60,000
(b) Proportionate Capital (W.N. 2)	21,30,000	14,20,000	7,10,000	42,60,000
(c) Amount to be brought in (paid off) (a-b)	6,77,000	7,39,666	62,666	-

4. Capital Accounts (in the Books of Vinod & Co.)

Particulars	Vinod	Raj	Particulars	Vinod	Raj
	₹	₹		₹	₹
To Capital A/c – M/s VRK& Co. (Transfer)	16,35,000	8,65,000	By Balance b/d	9,60,000	6,40,000
			By Reserve (3:1)	1,50,000	50,000
			By Goodwill (3:1)	1,50,000	50,000
			By Realisation A/c* -Profit (3:1)	3,75,000	1,25,000
	16,35,000	8,65,000		16,35,000	8,65,000

*For Building ₹ 2,00,000 (4,00,000 -2,00,000) and Machinery ₹ 3,00,000 (9,00,000 – 6,00,000).

5. Capital Accounts (in the Books of Raj & Co.)

Particulars	*Raj*	*Kumar*	*Particulars*	*Raj*	*Kumar*
₹		₹		₹	₹
VRK& Co. (Transfer)	14,16,000	7,08,000	By Balance b/d	8,00,000	4,00,000
			By Reserve (2:1)	4,00,000	2,00,000
			By Goodwill (2:1)	1,09,334	54,666
			By Realisation A/c* -Profit (2:1)	1,06,666	53,334
	14,16,000	7,08,000		14,16,000	7,08,000

*For Machinery ₹ 1,60,000 (8,00,000 – 6,40,000).

3. Realisation Account

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

ABC Ltd. Account

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

Partners' Capital Accounts

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

C's Current Account

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

Shares in ABC Ltd. Account

Particulars	₹	*Particulars*	₹
To ABC Ltd. Account	1,20,000	By A's Capital A/c	60,000
		By B's Capital A/c	40,000
		By C's Capital A/c	20,000
	1,20,000		1,20,000

Cash Account

Particulars	₹	*Particulars*	₹
To Balance b/d	1,000	By Realisation A/c (Liabilities	94,500

		and expenses)	
To ABC Ltd.	75,500	By A's Capital A/c	18,000
To Realisation A/c (sale of assets)	49,000	By B's Capital A/c	44,000
To C's Capital A/c	31,000		-
	1,56,500		1,56,500

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

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

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

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

(b) Partners' Capital Accounts

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

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

(c) Balance sheet of MNO Ltd. as on 31st March, 2016 (after Takeover of Firm)

		Note no.	₹
I	Equity and Liabilities:		
	(1) Shareholders Funds		
	Share Capital	1	3,32,000
	(2) Current Liabilities		
	Trade Payables		1,69,400
	Total		5,01,400
II	Assets		
	(1) Non-Current Assets		
	Fixed Assets		
	Tangible Assets- Machinery		1,40,000
	(2) Current Assets:		
	(a) Inventories		1,37,400
	(b) Trade Receivables		1,24,000
	(c) Cash and Cash Equivalents		1,00,000
	Total		5,01,400

Notes to Accounts

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

Working Note:

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

Particulars	₹	₹	*Particulars*	₹
To Interest on Capital:			By Net Profit	2,48,600
M [₹ 1,36,000 x 10%]	13,600		(given)	
N [₹ 90,000 x 10%]	9,000			

O [₹ 46,000 x 10%]	4,600	27,200		
To Profits transferred to Capital in profit sharing ratio 5:3:2				
M	1,10,700			
N	66,420			
O	44,280	2,21,400		
Total		2,48,600		2,48,600

2. Statement showing Additional Drawings in Cash

(a) Funds available for Drawings

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

(b) Ascertainment of Additional Drawings

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

5. Journal Entries in the books of Kanika Ltd.

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

Employees Compensation Expense A/c Dr. To Employee Stock Options Outstanding A/c (Being expense in respect of ESOP recognized for the year 2)	8,60,625	8,60,625
Profit and Loss A/c Dr. To Employee Compensation Expense A/c (Being Expenses of the year transferred to P & L A/c)	8,60,625	8,60,625
At the end of Year 3		
Employees Compensation Expense A/c Dr. To Employee Stock Options Outstanding A/c (Being expense in respect of ESOP recognized for the year 3)	21,03,750	21,03,750
Profit and Loss A/c Dr. To Employee Compensation Expense A/c (Being Expenses of the year transferred to P & L A/c)	21,03,750	21,03,750

Working Notes:

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

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

C. Fair Value of each option = ₹ 5

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

E. Amount of Fair Value of Options to be recognized as an expense

1st year (34,42,500/4) = ₹ 8,60,625

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

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

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

6. Journal Entries

		₹	₹
1.	Bank A/c Dr. To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	10,00,000	10,00,000
2.	11% Preference share application & allotment A/c Dr.	10,00,000	

	To 11% Preference Share Capital A/c			10,00,000
	(Being allotment of 1 lakh preference shares)			
3.	General Reserve A/c	Dr.	30,00,000	
	To Capital Redemption Reserve A/c			30,00,000
	(Being creation of capital redemption reserve for buy back of shares)			
4.	Equity share capital A/c	Dr.	40,00,000	
	Securities Premium A/c	Dr.	16,00,000	
	General reserve A/c	Dr.	32,00,000	
	To Equity shareholders/Equity Shares buy back A/c			88,00,000
	(Amount payable to equity shareholder on buy back)			
5.	Equity shareholders/ Equity Shares buy back A/c	Dr.	88,00,000	
	To Bank A/c			88,00,000
	(Being payment made for buy back of shares)			

Working Notes:

1. Calculation of amount used from General Reserve Account

		₹
Amount paid for buy back of shares (4,00,000 shares x ₹ 22)		88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹10)		(10,00,000)
Less: Utilisation of Securities Premium Account		(16,00,000)
Balance used from General Reserve Account		62,00,000
* Used under Section 68 for buy back	32,00,000	
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000	
	62,00,000	

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

Note: It is assumed that the buy-back of 4,00,000 equity shares is within the prescribed 25% limit of total equity shares.

7. In the books of Soumya Ltd.

Journal Entries

Date	*Particulars*		*Amount Dr.*	*Amount Cr.*
			₹	₹
1.5.2015	Bank A/c	Dr.	1,50,00,000	
	To Debenture Application A/c			1,50,00,000
	(Application money received on 1,50,000 debentures @ ₹ 100 each)			
1.6.2015	Debenture Application A/c	Dr.	1,50,00,000	
	Underwriters A/c	Dr.	50,00,000	
	To 15% Debentures A/c			2,00,00,000
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)			
	Underwriting Commission	Dr.	4,00,000	
	To Underwriters A/c			4,00,000
	(Commission payable to underwriters @ 2% on ₹ 2,00,00,000)			
	Bank A/c	Dr.	46,00,000	
	To Underwriters A/c			46,00,000
	(Amount received from underwriters in settlement of account)			
30.9.2015	Debenture Interest A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
	(Interest paid on debentures for 4 months @ 15% on ₹ 2,00,00,000)			
30.10.2015	15% Debentures A/c	Dr.	1,20,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium A/c			1,00,00,0000
	(Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)			
31.3.2016	Debenture Interest A/c	Dr.	7,50,000	

	To Bank A/c (Interest paid on debentures for the half year)		7,50,000

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 2016

On ₹ 80,00,000 for 6 months @ 15%	= ₹6,00,000
On ₹ 1,20,00,000 for 1 months @ 15%	= ₹ 1,50,000
	₹ 7,50,000

8. Books of A Limited

Realisation Account

		₹			₹
To	Building	3,40,000	By	Trade payables	3,20,000
To	Machinery	6,40,000	By	B Ltd.	12,10,000
To	Inventory	2,20,000	By	Equity Shareholders (Loss)	76,000
To	Trade receivables	2,60,000			
To	Goodwill	1,30,000			
To	Bank (Exp.)	16,000			
		16,06,000			16,06,000

Bank Account

To	Balance b/d	1,36,000	By	Realisation (Exp.)	16,000
To	B Ltd.	6,00,000	By	10% debentures	4,00,000
			By	Loan	1,60,000
			By	Equity shareholders	1,60,000
		7,36,000			7,36,000

10% Debentures Account

To	Bank	4,00,000	By	Balance b/d	4,00,000
		4,00,000			4,00,000

Loan Account

To	Bank	1,60,000	By	Balance b/d	1,60,000
		1,60,000			1,60,000

Share Issue Expenses Account

To	Balance b/d	34,000	By	Equity shareholders	34,000
		34,000			34,000

General Reserve Account

To	Equity shareholders	80,000	By	Balance b/d	80,000
		80,000			80,000

B Ltd. Account

To	Realisation A/c	12,10,000	By	Bank	6,00,000
			By	Equity share in B Ltd.(4,880 shares at ₹ 125 each)	6,10,000
		12,10,000			12,10,000

Equity Shares in B Ltd. Account

To	B Ltd.	6,10,000	By	Equity shareholders	6,10,000
		6,10,000			6,10,000

Equity Share Holders Account

To	Realisation	76,000	By	Equity share capital	8,00,000
To	Share issue Expenses	34,000	By	General reserve	80,000
To	Equity shares in B Ltd.	6,10,000			
To	Bank	1,60,000			
		8,80,000			8,80,000

B Ltd

Balance Sheet as on 1st April, 2016 (An extract)*

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	4,88,000
	b	Reserves and Surplus	2	1,07,000
2		**Current liabilities**		
	a	Trade Payables	3	2,80,000
	b	Bank overdraft		6,00,000
		Total		14,75,000

* In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	8,82,000
		Intangible assets	5	2,16,000
2		Current assets		
	a	Inventories	6	1,83,000
	b	Trade receivables	7	1,94,000
				14,75,000

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	4,880 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)		4,88,000
	Total		4,88,000
2	Reserves and Surplus (an extract)		
	Securities Premium		1,22,000
	Profit and loss account	…..	
	Less: Unrealised profit	(15,000)	(15,000)
	Total		1,07,000
3	Trade payables		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
4	Tangible assets		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		8,82,000
5	Intangible assets		
	Goodwill		2,16,000

6	**Inventories**		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000
7	**Trade receivables**		
	Opening balance (2,60,000 x 0.90)	2,34,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	1,94,000

Working Notes:

1.	**Valuation of Goodwill**	₹
	Average profit	1,24,400
	Less: 8% of ₹ 8,80,000	(70,400)
	Super profit	54,000
	Value of Goodwill = 54,000 x 4	2,16,000
2.	**Net Assets for purchase consideration**	
	Goodwill as valued in W.N.1	2,16,000
	Building	3,06,000
	Machinery	5,76,000
	Inventory	1,98,000
	Trade receivables (2,60,000-26,000)	2,34,000
	Total Assets	15,30,000
	Less: Trade payables	(3,20,000)
	Net Assets	12,10,000

Out of this ₹ 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹ 6,10,000 in shares of ₹ 125. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3. **Unrealised Profit on Inventory**	₹
The Inventory of A Ltd. includes goods worth ₹ 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be $\frac{40,000}{1,60,000} \times 1,00,000$	25,000
As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 1,00,000.	(10,000)
Amount of unrealized profit	15,000

9. In the books of Ice Ltd.

Journal Entries

	Particulars		*Debit* ₹	*Credit* ₹
i	8% Preference share capital A/c (₹ 100 each)	Dr.	4,00,000	
	To 8% Preference share capital A/c (₹ 80 each)			3,20,000
	To Capital reduction A/c			80,000
	(Being the preference shares of ₹ 100 each reduced to ₹ 80 each as per the approved scheme)			
ii	Equity share capital A/c (₹ 10 each)	Dr.	10,00,000	
	To Equity share capital A/c (₹ 2 each)			2,00,000
	To Capital reduction A/c			8,00,000
	(Being the equity shares of ₹ 10 each reduced to ₹ 2 each)			
iii	Capital reduction A/c	Dr.	32,000	
	To Equity share capital A/c (₹ 2 each)			32,000
	(Being arrears of preference share dividend of one year to be satisfied by issue of 16,000 equity shares of ₹ 2 each)			
iv	6% Debentures A/c	Dr.	3,00,000	
	To Freehold property A/c			3,00,000
	(Being claim settled in part by transfer of freehold property)			
v	Accrued debenture interest A/c	Dr.	24,000	
	To Bank A/c			24,000
	(Being accrued debenture interest paid)			
vi	Freehold property A/c	Dr.	1,50,000	
	To Capital reduction A/c			1,50,000
	(Being appreciation in the value of freehold property)			
vii	Bank A/c	Dr.	2,50,000	
	To Trade investment A/c			2,00,000
	To Capital reduction A/c			50,000
	(Being trade investment sold on profit)			
viii	Director's loan A/c	Dr.	3,00,000	

	To Equity share capital A/c (₹ 2 each)			75,000
	To Capital reduction A/c			2,25,000
	(Being director's loan waived by 75% and balance being discharged by issue of 37,500 equity shares of ₹ 2 each)			
ix	Capital Reduction A/c	Dr.	9,75,000	
	To Profit and loss A/c			5,25,000
	To Trade receivables A/c			1,80,000
	To Inventories-in-trade A/c			2,40,000
	To Bank A/c			30,000
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account)			
x	Capital Reduction A/c	Dr.	2,98,000	
	To Capital reserve A/c			2,98,000
	(Being balance transferred to capital reserve account as per the scheme)			

Balance Sheet of Ice Ltd. (As reduced)

		Particulars	Notes No.	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	6,27,000
	b	Reserves and Surplus	2	2,98,000
2		**Non-current liabilities**		
		Long-term borrowings	3	1,00,000
3		**Current liabilities**		
	a	Trade Payables		1,01,000
		Total		11,26,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	6,00,000

2		Current assets		
	a	Inventories		60,000
	b	Trade receivables		2,70,000
	c	Cash and cash equivalents	5	1,96,000
		Total		11,26,000

Note to Accounts ₹

1.	Share Capital	
	1,53,500 Equity shares of ₹ 2 each	3,07,000
	(out of which 53,500 shares have been issued for consideration other than cash)	
	4,000, 8% Preference shares of ₹ 80 each fully paid up	3,20,000
	Total	6,27,000
2.	Reserves and Surplus	
	Capital Reserve	2,98,000
3.	Long-term borrowings	
	Secured	
	6% Debentures	1,00,000
4.	Tangible assets	
	Freehold property	4,00,000
	Plant and machinery	2,00,000
	Total	6,00,000
5.	Cash and cash equivalents	
	Cash at bank (2,50,000 – 24,000 –30,000)	1,96,000

10. (i) Liquidator's Statement of Account

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

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

		By Debenture holders having a floating charge on all assets		3,00,000
		By Preferential creditors		25,000
		By Unsecured creditors		6,56,373
	10,29,000			10,29,000

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

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

Working Notes:

1. Unsecured portion in partly secured creditors=₹ 1,75,000 – ₹ 1,60,000 = ₹ 15,000
2. Total unsecured creditors = 9,00,000 + 15,000 (W.N.1) = ₹ 9,15,000
3. Liquidator's remuneration on payment to unsecured creditors

   Cash available for unsecured creditors after all payments including payment to preferential creditors & liquidator's remuneration on it = ₹ 6,69,500

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

   or on ₹ 6,56,373 x 2/100 = ₹ 13,127

11. FORM B– RA

Name of the Insurer: Lal Insurance Company Limited

Registration No. and Date of registration with IRDA: ……………………..

Revenue Account for the year ended 31st March, 2016

Particulars	*Schedule*	*Amount (₹)*
Premium earned (net)	1	21,70,000
Profit or loss on sale/redemption of investment		22,000
Others		-
Interest dividend & rent (Gross)		1,28,500
Total (A)		23,20,500
Claim incurred (Net)	2	13,90,000
Commission	3	3,04,000
Operating expenses related to insurance	4	5,00,000
Total (B)		21,94,000
Operating profit/loss from insurance business		1,26,500

	₹
Schedule –1 (Premium earned net)	₹
Premium received	22,40,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	70,000
Total premium earned	21,70,000
Schedule -2 (Claims incurred net)	
Claim paid	12,80,000
Add: Legal expenses regarding claims	60,000
	13,40,000
Add: Claims outstanding as on 31st March 2016	1,80,000
	15,20,000
Less: Claims outstanding as on 31st March 2015	1,30,000
	13,90,000
Schedule-3 (Commission)	
Commission paid	3,04,000
Schedule-4 (Operating expenses related to Insurance Business)	-
Expenses of management (5,60,000 – 60,000)	5,00,000

Working Note:

Calculation for change in Reserve for Unexpired risk:		₹
As on 31st March, 2016:		
Reserve for Unexpired Risk	11,20,000	
Additional Reserve	1,50,000	12,70,000
Less: Reserve for Unexpired risks as on 31st March, 2015	10,00,000	
Additional reserve as on 31st March, 2015	2,00,000	12,00,000
		70,000

Note: Interest and dividends are shown at gross value in Revenue A/c. Income tax on the above will not be included in revenue A/c of an insurance company as it is the part of Profit and Loss A/c.

12. Profit & Loss Account (an extract)
for the period ending 31.12. 2015

	₹
Transfer from 'Rebate on bills discounted account' (01.01. 2015)	4,170
Add: Discount for the year 2015	42,956

	47,126
Less: Rebate on bills discounted carried forward to the year 2016	(6,637)
	40,489

Balance Sheet (an extract) as on 31.12.2015

	₹
Other liabilities & provisions:	
Rebate on bills discounted	6,637

Working Note:

Statement of rebate on bills discounted as on 31.12. 2015

Due date	*Amount (₹)*	*No. of days after 31.12.2015*	*Rate of discount (%)*	*Discount of the unexpired period*
March 6th	70,000	65	5	623
March 12th	2,18,000	71	4.5	1,908
March 26th	1,41,000	85	6	1,970
April 6th	2,03,000	96	4	2,136
Total rebate on bills discounted to be carried forward				6,637

13. Calculation of correct Departmental Profits

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

Working Notes:

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

14. Pune Branch Account

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

Working Note:

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

15. In the books of Ganesh Ltd.

New York Branch Trial Balance in (₹)
as on 31st March, 2016

	Conversion rate per US $ (₹)	*Dr.* ₹	*Cr.* ₹
Stock on 1.4.15	40	12,000	
Purchases and sales	41	32,800	61,500
Sundry debtors and creditors	42	16,800	12,600
Bills of exchange	42	5,040	10,080
Sundry expenses	41	44,280	
Bank balance	42	17,640	
Delhi office A/c	–		44,380
		1,28,560	1,28,560

16. 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 on the balance sheet date, so no disclosure is necessary.

17. As per para 8 of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

In the given case the selling of land to tide over liquidation problems as well as fire in the Factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both the events are material in nature and expected not to recur frequently or regularly. Thus, these are Extraordinary Items.

Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

18. (a) In given case the recoverability of ₹ 40 Crores is not doubtful or uncertain but just deferred temporarily hence it should be translated using exchange rates at the close of the year. Further AS-11 clearly mentions that net difference shall be transferred to profit and loss account. Hence, we can say that exchange difference favourable or unfavorable both shall be considered at the year end rather to ignore the gains and recording just losses.

(b) From the above account, it is inferred that the Company follows Reduction Method for accounting of Government Grants. Accordingly, out of the ₹ 16,00,000 that has been received, ₹ 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c.

The balance ₹ 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of ₹ 12,00,000 had been debited to P&L A/c in the earlier years by way of depreciation charge, and ₹ 8,00,000 transferred to P&L A/c now would be partial recovery of that cost.

There is no need to provide depreciation for 2015-16 or 2016-17 as the depreciable amount is now Nil.

In respect of Depreciable Assets, AS-12 does not permit the crediting of the grant or any part thereof to Capital Reserve A/c.

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

(b) Journal entry in the books of Lessee

	₹	₹
Asset A/c Dr.	2,99,776	
To Lessor		2,99,776
(Being recognition of finance lease as an asset and a liability)		

Working Note:

Year	*Lease Payments* ₹	*Discounting Factor (12.6%)*	*Present Value* ₹
1	80,000	0.89	71,200
2	80,000	0.79	63,200
3	80,000	0.70	56,000
4	80,000	0.622	49,760
5	80,000	0.552	44,160
5	28,000 (GRV)	0.552	15,456
			2,99,776

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

Hence, the expenses amounting ₹ 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2016.

(b) As per para 46 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it was viewed that the accounting treatment adopted by the company with respect to warranty is not correct.