PAPER – 5: ADVANCED ACCOUNTING

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

A. Applicable for May, 2016 Examination

(i) Companies Act, 2013 and Legislative Amendments

The relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31st October, 2015 will be applicable for May, 2016 Examination

(ii) Maintenance of Statutory Liquidity Ratio (SLR)

As per Notification No. DBOD No. Ret. BC.70/12.02.001/2014-15 dated February 3, 2015, the SLR of Scheduled Commercial Banks, Local Area Banks and Regional Rural Banks should not be less than 21.5% of its demand and time liabilities with effect from the fortnight beginning February 7, 2015.

(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.

(iv) SLR Holdings under Held to Maturity Category

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

a. the excess comprises only of SLR securities, and

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

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

(v) Revision in date of commencement of commercial operations

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

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

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

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

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

B. Not applicable for May, 2016 examination

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

Ind ASs are not applicable for the students appearing in May, 2016 Examination.

(ii) Financial Reporting of Electricity Companies

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

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Partnership Accounts

Dissolution of Partnership firm

1. The firm of M/S Omega was dissolved on 31.3.2015, at which date its Balance Sheet stood as follows:

Liabilities	₹	*Assets*	₹
Creditors	2,00,000	Fixed Assets	45,00,000
Bank Loan	5,00,000	Cash and Bank	2,00,000
L's Loan	10,00,000		
Capital:			
L	15,00,000		
M	10,00,000		
S	5,00,000		
	47,00,000		47,00,000

Partners share profits equally. A firm of Chartered Accountants is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which is to include all expenses is fixed at ₹ 1,00,000. No loss is expected on realisation since fixed assets include valuable land and building. Realisations are:

S. No.	*Amount in ₹*
1	3,00,000
2	15,00,000
3	15,00,000
4	30,00,000
5	30,00,000

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

Amalgamation of Partnership firms

2. A and B are partners of AB & Co. sharing profits and losses in the ratio of 2:1 and C and D are partners of CD & Co. sharing profits and losses in the ratio of 3:2. On 1st April 2015, they decided to amalgamate and form a new firm M/s. AD & Co. wherein all the

partners of both the firm would be partners sharing profits and losses in the ratio of 2:1:3:2 respectively to A,B,C and D.

Their balance sheets on that date were as under:

Liabilities	*AB & Co. (₹)*	*CD & Co. (₹)*	*Assets*	*AB & Co. (₹)*	*CD & Co. (₹)*
Capitals					
A	1,50,000		Building	75,000	90,000
B	1,00,000		Machinery	1,20,000	1,00,000
C		1,20,000	Furniture	15,000	12,000
D		80,000	Inventory	24,000	36,000
Reserve	66,000	54,000	Trade receivables	65,000	78,000
Trade payable	52,000	35,000	Due from CD		
Due to AB		47,000	& Co.	47,000	
& Co.			Cash at Bank	18,000	15,000
			Cash in hand	4,000	5,000
	3,68,000	3,36,000		3,68,000	3,36,000

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

(a) Building was taken over at ₹ 1,00,000 and ₹ 1,25,000 of AB & Co. and CD & Co. respectively and Machinery was taken over at ₹ 1,25,000 and ₹ 1,10,000 of AB & Co. and CD & Co. respectively.

(b) Goodwill of AB & Co. was worth ₹ 75,000 and that of CD & Co. was worth ₹ 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.

(c) Provision for doubtful debts has to be carried forward at ₹ 5,000 in respect of debtors of AB & Co. and ₹ 8,000 in respect of CD & Co.

You are required to:

(i) Compute the adjustments necessary for goodwill.

(ii) Pass the Journal Entries in the books of AD & Co. assuming that excess/deficit capital (taking D's capital as base) with reference to share in profits are to be transferred to current accounts.

Sale of Partnership firm to Company

3. Happy & Co. is a partnership firm consisting of Mr. A , Mr. B and Mr. C who share profits and losses in the ratio of 2:2:1 and Sad Ltd. is a company doing similar business.

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

Liabilities	*Happy & Co.*	*Sad Ltd.*		*Happy & Co.*	*Sad Ltd.*
	₹	₹		₹	₹
Equity share Capital:			Plant & machinery	5,00,000	16,00,000
Equity shares of ₹ 10 each		20,00,000	Furniture & fixture Inventory	50,000 2,00,000	2,25,000 8,50,000
Partners capital:			Trade Receivables	2,00,000	8,25,000
A	2,00,000		Cash at bank	10,000	4,00,000
B	3,00,000		Cash in hand	40,000	1,00,000
C	1,00,000				
General reserve	1,00,000	7,00,000			
Trade Payables	3,00,000	13,00,000			
	10,00,000	40,00,000		10,00,000	40,00,000

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

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

The creditors of Happy & Co. includes ₹ 1,00,000 payable to Sad Ltd. An unrecorded liability of ₹ 25,000 of Happy & Co. must also be taken over by Sad Ltd.

Prepare:

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

(ii) Pass journal entries in the books of Sad Ltd. for acquisition of Happy & Co.

Conversion of Partnership into a Company

4. (a) Akash, Aman and Amit were partners of the firm '3A Enterprises' sharing profits and losses in the ratio of 3:2:1 respectively. On 31st March, 2015 their Balance Sheet stood as follows:

Liabilities	₹	*Assets*	₹
Akash's Capital A/c	16,80,000	Land and Buildings	14,00,000
Aman's Capital A/c	11,60,000	Machinery	11,00,000
Amit's Capital A/c	6,70,000	Furniture	6,10,000
General Reserve	6,30,000	Stock	8,40,000

Creditors	6,00,000	Debtors	6,00,000
		Cash at Bank	1,90,000
	47,40,000		47,40,000

On the above-mentioned date, the partners decided to convert their firm into a private limited company and named it '3A Enterprises (Private) Ltd.' The company took over all the assets including cash at bank and all the creditors for ₹ 42,00,000 payable in the form of fully paid equity shares of ₹ 10 each. It recorded in its books, land and buildings at ₹ 16,40,000, machinery at ₹ 9,90,000 and created a provision for bad debts @ 5% on debtors. The expenses of the take-over came to ₹ 23,000 which were paid and borne by the company.

The partners distributed the company's shares amongst themselves in their profit sharing ratio. They settled their accounts by paying or receiving cash.

Prepare Realization Account and all the partners' capital accounts in the firm's ledger and pass journal entries in the books of the company for all of its transactions mentioned above.

(b) What financial disclosures and returns are required to be filed by an LLP as per the LLP Act, 2008?

Employees Stock Option Plan

5. P Ltd. granted option for 8000 equity shares of ₹ 10 each on 1st October; 2010 at ₹ 80 when the market price was ₹ 170. The vesting period is 4 and half year, 4000 unvested options lapsed on 1st December; 2012; 3000 options are exercised on 30th September, 2015 and 1000 vested options lapsed at the end of the exercise period. Pass Journal· Entries for above transactions

Buy Back of Securities

6. Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2015:

Liabilities	*(₹ in lakhs)*	*Assets*	*(₹ in lakhs)*
Equity share capital	2,400	Machinery	3,600
(fully paid up shares of ₹ 10 each)		Furniture	450
Securities premium	350	Investment	148
General reserve	530	Inventory	1,200
Capital redemption reserve	400	Trade receivables	500
Profit & loss A/c	340	Cash at bank	1,500
12% Debentures	1,500		
Trade payables	1,400		
Other current liabilities	478		
	7,398		7,398

On 1st April, 2015, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 150 lakhs.

On 5th April, 2015, the company achieved the target of buy back.

You are required to:

(1) Pass necessary journal entries for the buy-back.

(2) Prepare Balance Sheet of Alpha Limited after of the shares.

Underwriting of Securities

7. Saurav Flour Mills Pvt. Ltd. floated a public issue of 1,50,000 Equity shares having face value of ₹ 10 each at par. A, B & C has taken underwriting of the issue in equal share with firm underwriting of 25,000, 20,000 & 20,000 shares respectively. Applications were received for 1,46,000 shares out of which the marked applications were as under:

A -24,600 B-20,000 C-15,000

Total applications received for 1,46,000 shares include applications by underwriters for firm underwriting.

Credit of unmarked applications is to be given to underwriters equally. The agreed underwriting commission was 5%. Total amount payable on application and allotment was ₹ 5 and balance in calls. Compute the following:

(i) Liability of each underwriter (in shares as well as in amount) if the benefit of the firm underwriting is not given to individual underwriter.

(ii) Commission due to underwriters.

(iii) Net Cash paid/received from underwriters.

Redemption of Debentures

8. Alia Ltd. took over the assets of ₹ 5,00,000 and creditors of ₹ 70,000 of Bharat & Co. for an agreed amount of ₹ 5,50,000 by the issue of fully paid 12% Debentures of ₹ 100 each at a premium of 10%. These Debentures are redeemable at a premium of 5% after 3 years. Pass the necessary journal entries both at the time of issue and Redemption of Debentures without providing for the interest.

Amalgamation of Companies

9. The summarized Balance Sheet of Reckless Ltd. as on 31st March, 2015 is as follows:

	₹
Assets:	
Freehold premises	2,20,000
Machinery	1,77,000
Furniture & fittings	90,800

Inventory		3,87,400
Trade receivables	95,000	
Less: Provision for doubtful debts	(4,000)	91,000
Cash in hand		2,300
Cash at bank		1,56,500
		11,25,000
Liabilities:		
60,000 Equity shares of ₹10 each		6,00,000
Pre-incorporation profit		21,000
Contingency reserve		1,35,000
Profit and loss account		1,26,000
Trade payables		1,33,000
Provision for income-tax		1,10,000
		11,25,000

Trade receivables consist of debtors amounting ₹ 80,000 and bill receivables worth ₹ 15,000. Trade payables consist of creditors amounting to ₹ 1,13,000 and acceptances worth ₹ 20,000.

Careful Ltd. decided to take over Reckless Ltd. from 31st March, 2015 with the following assets at value noted against them:

	₹
Bills receivable	15,000
Freehold premises	4,00,000
Furniture and fittings	80,000
Machinery	1,60,000
Stock	3,45,000

¼ of the consideration was satisfied by the allotment of fully paid preference shares of ₹ 100 each at par which carried 13% dividend on cumulative basis. The balance was paid in the form of Careful Ltd's equity shares of ₹ 10 each, ₹ 8 paid up.

Sundry Debtors realised ₹ 79,500. Acceptances were settled for ₹ 19,000. Income-tax authorities fixed the taxation liability at ₹ 1,11,600. Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹4,000.

You are required to :

(i) Calculate the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of consideration.

(ii) Prepare the important ledger accounts in the books of Reckless Ltd.

Internal Reconstruction of a Company

10. M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2015 before reconstruction:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Share Capital		Land & Building	42,70,000
50,000 shares of ₹ 50		Machinery	8,50,000
each fully paid up	25,00,000	Computers	5,20,000
1,00,000 shares of ₹ 50		Inventories	3,20,000
each ₹ 40 paid up	40,00,000	Trade receivables	10,90,000
Capital Reserve	5,00,000	Cash at Bank	2,68,000
8% Debentures of ₹ 100 each	4,00,000	Profit & Loss Account	29,82,000
12% Debentures of ₹ 100 each	6,00,000		
Trade creditors	12,40,000		
Outstanding Expenses	10,60,000		
	1,03,00,000		1,03,00,000

Following is the interest of Mr. A and Mr. B in M/s Xylem Limited:

	Mr. A	Mr. B
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

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

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

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

(3) Trade creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in

cash in full settlement of their claim. Trade creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

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

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

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

(7) Outstanding Expenses are fully paid in cash.

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

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

Liquidation of Company

11. The position of Careless Ld. on its liquidation is as under:

5,000, 10% Preference Shares of ₹ 100 each ₹ 60 paid up

2,000, Equity shares of ₹ 75 each, ₹ 50 paid up

Unsecured Creditors ₹ 99,000

Liquidation Expenses ₹ 1,000

Liquidator is entitled to a commission of 2% on the amount realized from calls made on contributories

You are required to Prepare Liquidator's Final Statement of Account if the total assets realized ₹ 3,80,400.

Financial Statements of Insurance Companies

12. (a) From the following information of Reliable Marine Insurance Ltd. for the year ending 31st March, 2015, find out Net premiums earned.

	(₹) *Direct Business*	*(₹)* *Re-insurance*
Premium:		
Received	17,60,000	1,50,400

Receivable – 01.04.2014	87,800	7,200
Receivable – 31.03.2015	75,400	6,400
Paid	1,21,800	
Payable – 01.04.2014		5,400
Payable – 31.03.2015		3,600

(b) Modern Insurance Company's Fire Insurance division provide the following information, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2015.

	Direct Business	*Re-insurance*
	₹	₹
Claim paid during the year	7,06,000	1,64,000
Claim received		64,000
Claim payable		
1st April, 2014	1,64,600	11,600
31st March, 2015	1,75,000	17,400
Claim receivable:		
1st April, 2014	-	17,000
31st March, 2015	-	28,400
Expenses of management	69,000	
(Includes ₹ 7,600 Surveyor's fee		
and ₹ 8,400 Legal expenses for settlement of claims)		

Financial Statements of a Banking Company

13. From the following information, compute the amount of provisions to be made in the Profit and Loss Account of a Commercial Bank for the year ending on 31-03-2015.

Assets (Category of Advances)	₹ in Lakhs
Standard Advances	5,000
Sub-standard Advances	3,500
(Include secured exposures ₹ 1,000 Lakhs and balances unsecured exposures ₹ 2,500 Lakhs includes ₹ 1,500 Lakhs in respect of infrastructure loan accounts where escrow accounts are available)	
Doubtful advances- unsecured portion	1,600
Doubtful advances- secured portion	
For doubtful up to 1 year	500

For doubtful more than 1 year and up to 3 years	600
For doubtful more than 3 years	300
Loss Advances	100

Departmental Accounts

14. Following is the Trial Balance of Mr. Mohan as on 31.03.2015:

	Particulars	*Debit (₹)*	*Credit (₹)*
Capital Account			40,000
Drawing Account		1,500	
Opening Stock	Department A	8,500	
	Department B	5,700	
	Department C	1,200	
Purchases	Department A	22,000	
	Department B	17,000	
	Department C	8,000	
Sales	Department A		54,000
	Department B		33,000
	Department C		21,000
Sales Returns	Department A	4,000	
	Department B	3,000	
	Department C	1,000	
Freight and Carriage	Department A	1,400	
	Department B	800	
	Department C	200	
Furniture and fixtures		4,600	
Plant and Machinery		20,000	
Motor Vehicles		40,000	
Sundry Debtors		12,200	
Sundry Creditors			15,000
Salaries		4,500	
Power and water		1,200	
Telephone charges		2,100	
Bad Debts		750	

Rent and taxes		6,000	
Insurance		1,500	
Wages	Department A	800	
	Department B	550	
	Department C	150	
Printing and Stationeries		2,000	
Advertising		3,500	
Bank Overdraft			12,000
Cash in hand		850	
		1,75,000	1,75,000

You are required to prepare Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments:

(a) Outstanding Wages: Department B- ₹ 150, Department C – ₹ 50.

(b) Depreciate Plant and Machinery and Motor Vehicles at the rate of 10%.

(c) Each Department shall share all expenses in proportion to their sales.

(d) Closing Stock: Department A - ₹ 3,500, Department B - ₹ 2,000, Department C - ₹ 1,500.

Branch Accounting

15. Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit to selling price is constant at 25 per cent throughout the year to 31st March, 2015.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

From the under mentioned figures, calculate the commission due to manager for the year end 31st March, 2015.

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

Foreign branch

16. Omega Ltd., an Indian company has a branch at New York (USA). The trial balance of the Branch as at 31st March, 2015 is as follows:

Particulars	*US$*	
	Dr.	*Cr.*
Fixed Assets	51,200	
Opening Stock	22,400	
Purchases/Sales	96,000	1,66,400
Goods Sent from HO	32,000	
Carriage Inward	400	
Branch Expenses	4,800	
Head Office Account	-	45,600
Sundry Debtors/Creditors	9,600	6,800
Cash and Bank	2,400	-
	2,18,800	2,18,800

The following further information is given below:

(1) Expenses outstanding $ 400.

(2) Depreciate Fixed Assets @ 10% p.a. at written down value.

(3) The Head Office sent goods to Branch for ₹ 15,80,000.

(4) The head office shown an amount of ₹ 20,50,000 due from Branch.

(5) Closing Stock $ 21,500.

(6) There were no transit items either at the start or at the end of the year.

(7) On April 1, 2013 when the fixed assets were purchased the rate of exchange was ₹ 43 to one $. On April 1, 2014, the rate was ₹ 47 per $.On March 31, 2015, the rate was ₹ 50 per $. Average Rate during the year was ₹ 45 to one $.

You are required to convert the given USA Branch trail balance in ₹ assuming that the Branch is an Integral Foreign Operation of the Indian Company. Calculate Foreign Exchange gains/loss and show its Accounting Treatment as per AS11.

Problems based on Accounting Standards

AS 4 Contingencies and Events Occruing after Balance Sheet Date

17. (a) F Ltd. has finalized their financial statements for the year ending 31st March, 2015 and approved by their approving authority on 30th June, 2015.

(1) A major fire broke out in the night of 31st May, 2015 destroying factory

premises. Loss of property estimated to be ₹ 25 lakhs.

(2) Negotiations with another company started in April 2015 for acquisition of two manufacturing units which may involve additional investments of ₹ 50 lakhs.

(3) Foreign exchange loss during the period 1st April, 2015 and 1st June 2015 has resulted that assets being reduced by ₹ 30 lakhs.

You are requested to state how to deal with the above information's in the annual accounts.

AS 11 The Effects of Changes in Foreign Exchange Rates

(b) Trade receivables as on 31.3.2015 in the books of XYZ Ltd. include an amount receivable from Umesh ₹ 5,00,000 recorded at the prevailing exchange rate on the date of sales, i.e. at US $ 1= ₹ 58.50. US $ 1 = ₹ 61.20 on 31.3.2015.

Explain briefly the accounting treatment needed in this case as per AS 11 as on 31.3.2015.

AS 12 Accounting for Government Grants

18. (a) Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested ₹ 80 crores in the eligible investments. The company is eligible for the subsidy and has received ₹ 20 crores from the government in February 2014. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard?

AS 16 Borrowing Costs

(b) Tip top Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2014-15 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment exchange rate was ₹ 56 per US $ and the rate as on 31st March, 2015 was ₹ 62 per US $. If Tip top Builders Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%. Compute Borrowing Cost and exchange difference for the year ending 31st March, 2015 as per applicable Accounting Standards

AS 19 Leases

19. (a) Ryan International Limited has given a machinery on lease for 36 months, and its useful life is 60 months. Cost & fair market value of the machinery is ₹ 5,00,000. The amount will be paid in 3 equal annual installments and the lessee will return the machinery to lessor at termination of lease. The unguaranteed residual value at the end of 3 years is ₹ 50,000. IRR of investment is 10% and present value of annuity factory of ₹ 1 due at the end of 3 years at 10% IRR is 2.4868 and present value of

₹ 1 due at the end of 3rd year at 10% IRR is 0.7513.

You are required to comment with reason whether the lease constitute finance lease or operating lease.

AS 20 Earning Per Shares

(b) From the following information, you are required to compute the basic and adjusted eamings per share:

Net profit for 2013-14	11 lakh
Net profit for 2014-15	15 lakh
No. of shares issued before rights issue	5 lakhs
Right issue	One for every 5 held
Right issue price	15 per share
Last date of exercising right option	1-06-2014
Fair value of shares before right issue	21 per share

AS 26 Intangible Assets

20. (a) On 31-03-2015, the Balance Sheet of Alpha Ltd. shows an item of Intangible assets at ₹ 30 Lakhs. The asset was acquired on 1-4-2010 for ₹ 80 lakhs and was available for use on that date. The company has been following a policy of amortizing intangible assets over a period of 8 years on straight line basis. How you will deal in the books of accounts if the company determines by applying the best estimate of its useful life on 1-4-2015, and the the amortization period to be 10 years, being the best estimate of its useful life from the date, it was available for use.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

(b) Sun Ltd. has entered into a sale contract of ₹ 5 crores with X Ltd. during 2013-14 financial year. The profit on this transaction is ₹ 1 crore. The delivery of goods to take place during the first month of 2014-15 financial year. In case of failure of Sun Ltd. to deliver within the schedule, a compensation of ₹ 1.5 crores is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of 2013-14 financial year. As on balance sheet date (31.3.2014), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

(i) Should Sun Ltd. provide for contingency as per AS 29?

(ii) Should provision be measured as the excess of compensation to be paid over the profit?

SUGGESTED ANSWERS/HINTS

1. In the Books of M/s OMEGA

Statement showing distribution of cash among the Partners

(Under Higher Relative Capital method)

Particulars					Capital A/cs		
	Amount *available*	Creditors	*Bank Loan*	L's loan	*L*	*M*	*S*
	₹		₹	₹	₹	₹	₹
Balance due		2,00,000	5,00,000	10,00,000	15,00,000	10,00,000	5,00,000
1st Instalment (including cash and bank balances)	5,00,000						
Less: Liquidator's Expenses and fees	1,00,000						
	4,00,000						
Less: Payment to Creditors and repayment of Bank Loan in the ratio of 2:5	(4,00,000)	(1,14,286)	(2,85,714)	–	–	–	–
Balance Due		85,714	2,14,286	10,00,000	15,00,000	10,00,000	5,00,000
2nd Instalment	15,00,000						
Less: Payment to Creditors and repayment of Bank loan in full settlement	(3,00,000)	(85,714)	(2,14,286)	–	–	–	–
Balance	12,00,000	–	–	10,00,000	15,00,000	10,00,000	5,00,000
Less: Repayment of L's Loan	(10,00,000)	–	–	(10,00,000)	–	–	–
	2,00,000			-	15,00,000	10,00,000	5,00,000
Less: Payment to Mr. L towards relative higher capital (W.N. 1)	(2,00,000)	–	–	–	(2,00,000)	–	–
					13,00,000	10,00,000	5,00,000
Balance Due 3rd Instalment	15,00,000						

Less: Payment to Mr. L towards higher relative capital (W.N. 2)	(3,00,000)				(3,00,000)	–	–
	12,00,000				10,00,000	10,00,000	5,00,000
Less: Payment to Mr. L & Mr. M towards excess capital (W.N. 1&2)	(10,00,000)				(5,00,000)	(5,00,000)	–
	2,00,000				5,00,000	5,00,000	5,00,000
Less: Payment to all the partners equally	(2,00,000)				(66,667)	(66,667)	(66,666)
Balance due	–				4,33,333	4,33,333	4,33,334
4th Instalment	30,00,000						
Less: Payment to all the partners equally	(30,00,000)				(10,00,000)	(10,00,000)	(10,00,000)
Realisation profit credited to Partners					5,66,667	5,66,667	5,66,666
5th Instalment	30,00,000						
Less: payment to all partners equally	(30,00,000)				10,00,000	10,00,000	10,00,000
Realisation profit credited to partners					15,66,667	15,66,667	15,66,666

Working Notes:

(i) Scheme of payment of surplus amount of ₹ 2,00,000 out of second Instalment:

	Capital A/cs		
	L	*M*	*S*
Balance (i)	15,00,000	10,00,000	5,00,000
Profit sharing ratio (ii)	1	1	1
Capital taking S's Capital (iii)	5,00,000	5,00,000	5,00,000
Excess Capital (iv) = (i) – (iii)	10,00,000	5,00,000	
Profit Sharing Ratio	1	1	
Excess capital taking			
M's Capital as base (v)	5,00,000	5,00,000	
Higher Relative Excess (iv) – (iv)	5,00,000		

So Mr. L should get ₹ 5,00,000 first which will bring down his capital account balance from ₹ 15,00,000 to ₹ 10,00,000. Accordingly, surplus amounting to ₹ 2,00,000 will be paid to Mr. L towards higher relative capital.

(ii) Scheme of payment of ₹ 15,00,000 realised in 3rd Instalment:

– Payment of ₹ 3,00,000 will be made to Mr. L to discharge higher relative capital. This makes the higher capital of both Mr. L and Mr. M by ₹ 5,00,000 as compared to capital of Mr. S.

– Payment of ₹ 5,00,000 each of Mr. L & Mr. M to discharge the higher capital.

– Balance ₹ 2,00,000 equally to L, M and S, i.e., ₹ 66,667 ₹ 66,667 and ₹ 66,666 respectively.

2. (i) Adjustment for raising & writing off of goodwill

	Goodwill raised in old profit sharing ratio			*Goodwill written off in new ratio*	*Difference*
	AB & Co.	*CD & Co.*	*Total*	*AD & Co.*	
	₹	₹	₹	₹	₹
A	50,000		50,000 Cr.	31,250 Dr.	18,750 Cr.
B	25,000		25,000 Cr.	15,625 Dr.	9,375 Cr.
C		30,000	30,000 Cr.	46,875 Dr.	16,875 Dr.
D		20,000	20,000 Cr.	31,250 Dr.	11,250 Dr.
	75,000	50,000	1,25,000	1,25,000	

(ii) In the books of AD & Co.

Journal Entries

Date	*Particulars*		*Debit*	*Credit*
			₹	₹
April 1, 2015	Building A/c	Dr.	1,00,000	
	Machinery A/c	Dr.	1,25,000	
	Furniture A/c	Dr.	15,000	
	Stock A/c	Dr.	24,000	
	Debtors A/c	Dr.	65,000	
	CD & Co. A/c	Dr.	47,000	
	Cash at bank A/c	Dr.	18,000	
	Cash in hand A/c	Dr.	4,000	
	To Provision for doubtful debts A/c			5,000
	To Creditors A/c			52,000
	To A's capital A/c (W.N. 2a)			2,10,667

	To B's capital A/c (W.N.2 a)			1,30,333
	(Being the sundry assets and liabilities of AB & Co. taken over at the values stated as per the agreement)			
April 1, 2015	Building A/c	Dr.	1,25,000	
	Machinery A/c	Dr.	1,10,000	
	Furniture A/c	Dr.	12,000	
	Stock A/c	Dr.	36,000	
	Debtors A/c	Dr.	78,000	
	Cash at bank A/c	Dr.	15,000	
	Cash in hand A/c	Dr.	5,000	
	To Provision for doubtful debts A/c			8,000
	To Creditors A/c			35,000
	To AB & Co. A/c			47,000
	To C's capital A/c (W.N. 2b)			1,74,600
	To D's capital A/c (W.N. 2b)			1,16,400
	(Being the sundry assets and liabilities of CD & Co. taken over at the values stated as per the agreement)			
	C's capital A/c	Dr.	16,875	
	D's capital A/c	Dr.	11,250	
	To A's capital A/c			18,750
	To B's capital A/c			9,375
	(Being adjustment in capital accounts of the partners on account of goodwill)			
	AB & Co. A/c	Dr.	47,000	
	To CD & Co. A/c			47,000
	(Being mutual indebtedness of AB & Co. and CD & Co. cancelled)			
	A's Capital A/c	Dr.	1,24,267	
	To A's Current A/c			1,24,267
	(Being excess amount in A's capital A/c transferred to A's current A/c - refer W.N.3)			
	B's Capital A/c	Dr.	87,133	
	To B's Current A/c			87,133
	(Being excess amount in B's capital A/c transferred to B's current A/c - refer W.N.3)			

Working Notes:

(1) Profit on Revaluation

	AB & Co.	*CD & Co.*
	₹	₹
Building (1,00,000 – 75,000)	25,000	
(1,25,000 – 90,000)		35,000
Machinery (1,25,000 – 1,20,000)	5,000	
(1,10,000 – 1,00,000)		10,000
	30,000	45,000
Less: Provision for doubtful debts	(5,000)	(8,000)
	25,000	37,000

(2) Balance of capital accounts of partners on transfer of business to AD & Co.

(a) AB & Co.

	A's Capital	*B's Capital*
	₹	₹
Balance as per the Balance Sheet	1,50,000	1,00,000
Reserves in the profits and losses sharing ratio	44,000	22,000
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	16,667	8,333
	2,10,667	1,30,333

(b) CD & Co.

	C's Capital	*D's Capital*
	₹	₹
Balance as per the Balance Sheet	1,20,000	80,000
Reserves in the profits and losses sharing ratio	32,400	21,600
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	22,200	14,800
	1,74,600	1,16,400

(3) Calculation of capital of each partner in the new firm

Particulars	*A*	*B*	*C*	*D*
	₹	₹	₹	₹
Balance as per W.N.2	2,10,667	1,30,333	1,74,600	1,16,400

Adjustment for goodwill	18,750	9,375	(16,875)	(11,250)
	2,29,417	1,39,708	1,57,725	1,05,150
Total capital ₹ 4,20,600* in the new ratio of 2:1:3:2	(1,05,150)	(52,575)	(1,57,725)	(1,05,150)
Transfer to Current Account	1,24,267 Cr.	87,133 Cr.	-	-

* Taking D's capital as the base which is 2/8th of total capital; total capital will be 1,05,150 x 8/2 i.e. ₹ 4,20,600.

3. (i) In the books of Happy & Co.

Realisation Account

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

Partners' Capital Accounts

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

Cash and Bank Account

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

* It is assumed that cash at bank has been withdrawn to pay to Partner B.

(ii) In the Books of Sad Ltd.

Journal Entries

			Dr. (₹)	Cr. (₹)
1.	Business Purchase Account	Dr.	6,00,000	
	To Liquidators of Happy & Co.			6,00,000
	(Being business of Happy & Co. purchased and payment due)			
2.	Plant and Machinery A/c	Dr.	5,00,000	
	Furniture and Fixture A/c	Dr.	50,000	
	Inventory A/c	Dr.	2,00,000	
	Trade receivables A/c	Dr.	2,00,000	
	To Trade payables			3,00,000
	To Unsecured Liability			25,000
	To Business Purchase Account			6,00,000
	To Capital Reserve (B.F.)			25,000
	(Being take over of all assets and liabilities)			
3.	Liquidators of Happy & Co.	Dr.	6,00,000	
	To Equity Share Capital Account			5,00,000
	To Securities Premium Account			1,00,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)			
4.	Trade payables Account	Dr.	1,00,000	
	To Trade receivables Account			1,00,000
	(Being mutual owing eliminated)			

Working Note:

Computation of purchase consideration:

50,000 Equity shares of ₹ 12 each = ₹ 6,00,000

Equity shares to be given to partners.

Partners A	=	20,000 Shares @ ₹ 12 = ₹ 2,40,000
Partner B	=	20,000 shares @ ₹ 12 = ₹ 2,40,000
Partner C	=	10,000 shares @ ₹ 12 = ₹ 1,20,000

4. (a) In the books of 3A Enterprises

Realisation Account

	₹		₹
To Land and Buildings	14,00,000	By Creditors	6,00,000
To Machinery	11,00,000	By 3A Enterprises (Pvt.) Ltd. A/c	42,00,000
To Furniture	6,10,000		
To Stock	8,40,000		
To Debtors	6,00,000		
To Cash at Bank	1,90,000		
To Akash's capital	30,000		
To Aman's capital	20,000		
To Amit's capital	10,000		
	48,00,000		48,00,000

Partners' Capital Accounts

	Akash	*Aman*	*Amit*		*Akash*	*Aman*	*Amit*
	₹	₹	₹		₹	₹	₹
To Shares in 3A Enterprises (Pvt.) Ltd. A/c	21,00,000	14,00,000	7,00,000	By Balance b/d	16,80,000	11,60,000	6,70,000
				By General Reserve	3,15,000	2,10,000	1,05,000
To Bank A/c (Settlement)	-	-	85,000	By Realization A/c (Profit)	30,000	20,000	10,000
				By Bank A/c (Settlement)	75,000	10,000	-
	21,00,000	14,00,000	7,85,000		21,00,000	14,00,000	7,85,000

In the Books of 3A Enterprises (Private) Ltd

Journal Entries

			₹	₹
1.	Business Purchase A/c	Dr.	42,00,000	
	To M/s 3A Enterprises			42,00,000
	(Consideration payable for business purchased)			
2.	Land and Buildings A/c	Dr.	16,40,000	
	Machinery A/c	Dr.	9,90,000	
	Furniture A/c	Dr.	6,10,000	

	Stock A/c	Dr.	8,40,000	
	Debtors A/c	Dr.	6,00,000	
	Bank A/c	Dr.	1,90,000	
	To Creditors A/c			6,00,000
	To Provision for doubtful debts A/c			30,000
	To Business Purchase A/c			42,00,000
	To Capital Reserve A/c (balancing figure)			40,000
	(Assets and liabilities taken over for ₹ 42,00,000; balance credited to capital reserve)			
3.	Capital reserve A/c (Expenses of takeover)	Dr.	23,000	
	To Bank A/c			23,000
	(Expenses for take over debited to capital reserve)			
4.	M/s 3A Enterprises A/c	Dr.	42,00,000	
	To Equity share capital A/c			42,00,000
	(Allotment of fully paid equity shares to discharge consideration for business)			

(b) As per section 34 of the LLP Act, 2008, every LLP shall maintain such proper books of accounts as may be prescribed relating to its affairs for each year of its existence on cash basis or accrual basis and according to the double entry system of accounting and shall maintain the same at its registered office for such period as may be prescribed. Every LLP shall, within six months of the end of each financial year, prepare a Statement of Account and Solvency for the said financial year as at the last day of the said financial year, in such form as may be prescribed, and such statement shall be signed by the designated partners of the LLP. Every LLP shall also file within the prescribed time, the Statement of Account and Solvency with the Registrar every year in such form and manner and accompanied by such fee as may be prescribed. The accounts of an LLP must be audited in accordance with such rules as may be prescribed.

Under Section 35 (1) of the LLP Act every LLP is required to file an Annual Return which is duly authenticated with the registrar within sixty days of the closure of its financial year in such form and manner and with such fees as may be prescribed.

5. In the books of P Ltd.

Journal Entries

Date	*Particulars*		*(₹)*	*(₹)*
31.3.2011	Employees compensation expenses account	Dr.	80,000	

	To Employee stock option outstanding account			80,000
	(Being compensation expenses for 6 months recognized in respect of the employee stock option i.e. 8,000 options granted to employees at a discount of ₹ 90 each, amortised on straight line basis over $4\frac{1}{2}$ years [(8,000 stock options x ₹ 90)/4.5 years] x 0.5) (W.N.1)			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account			80,000
	(Being expenses transferred to profit and loss account at the year end)			
31.3.2012	Employees compensation expenses account	Dr.	1,60,000	
	To Employee stock option outstanding account			1,60,000
	(Being compensation expense recognized in respect of the employee stock option i.e. 8,000 options granted to employees at a discount of ₹ 90 each, amortised on straight line basis over $4\frac{1}{2}$ years (8,000 stock options x ₹ 90)/4.5 years) x 1 year)			
	Profit and loss account	Dr.	1,60,000	
	To Employees compensation expenses account			1,60,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2013	Employees compensation expenses account	Dr.	80,000	
	To Employee stock option outstanding account			80,000
	(Being compensation expense recognized in respect of the employee stock option i.e. 4,000 options at a discount of ₹ 90 each, amortised on straight line basis over $4\frac{1}{2}$ years (4,000 stock options x ₹ 90)/4.5 years)			

	Employee stock option outstanding account (W.N.2)	Dr.	1,20,000	
	To General Reserve account (W.N.2)			1,20,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account			80,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2014	Employees compensation expenses account	Dr.	80,000	
	To Employee stock option outstanding account			80,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of ₹ 90 each, amortised on straight line basis over $4\frac{1}{2}$ years (4,000 stock options x ₹ 90)/4.5 years)			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account			80,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2015	Employees compensation expenses account	Dr.	80,000	
	To Employee stock option outstanding account			80,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of ₹ 90 each, amortised on straight line basis over $4\frac{1}{2}$ years [(4,000 stock options x ₹ 90)/4.5 years])			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account			80,000
	(Being expenses transferred to profit and loss account at year end)			

30.9.2015	Bank A/c (3,000 × ₹ 80)	Dr.	2,40,000	
	Employee stock option outstanding	Dr.	2,70,000	
	To Equity share capital account (3,000 x ₹ 10)			30,000
	To Securities premium ₹ (170-10) x 3,000			4,80,000
	(Being 3,000 employee stock option exercised at an exercise price of ₹ 80 each)			
	Employee stock option outstanding account (W.N.3)	Dr.	90,000	
	To General reserve account (W.N.3)			90,000
	(Being ESOS outstanding A/c transferred to General Reserve A/c on lapse of 1000 vested options at the end of the exercise period)			

Working Notes:

1. Fair value = ₹170 - ₹ 80= ₹ 90
2. At 1.12.12, 4,000 unvested option lapsed, on which expenses already recognized to be transferred to general reserve = ₹ (80,000 + 1,60,000) x 4,000/8,000 = ₹ 1,20,000
3. Expenses charged on vested options lapsed transferred to general reserve

   = 1,000 x ₹ 90 = ₹ 90,000

6. In the books of Alpha Limited

Journal Entries

Date 2015	*Particulars*		*Dr.* (₹ in lakhs)	*Cr.* (₹ in lakhs)
April 1	Bank A/c	Dr.	150	
	To Investment A/c			148
	To Profit on sale of investment			2
	(Being investment sold on profit)			
April 5	Equity share capital A/c	Dr.	600	
	Securities premium A/c	Dr.	300	
	To Equity shares buy back A/c			900
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	900	

	To Bank A/c		900
	(Being the payment made on account of buy back of 60 Lakh Equity Shares)		
April 5	General reserve A/c Dr.	530	
	Profit and Loss A/c Dr.	70	
	To Capital redemption reserve A/c		600
	(Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)		

Balance Sheet (After buy back)

Particulars	*Note No*	*Amount (₹ in Lakhs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,800
(b) Reserves and Surplus	2	1,322
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500
(3) Current Liabilities		
(a) Trade payables		1,400
(b) Other current liabilities		478
Total		6,500
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	3	4,050
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		5,00
(d) Cash and cash equivalents (W.N.)		750
Total		6,500

Notes to Accounts

			₹
1.	Share Capital		
	Equity share capital (Fully paid up shares of ₹10 each)		1800
2.	Reserves and Surplus		
	General Reserve 530		
	Less: Transfer to CRR (530)	-	
	Capital Redemption Reserve 400		
	Add: Transfer due to buy-back of shares from P/L 70		
	Transfer due to buy-back of shares from Gen. res. 530	1,000	
	Securities premium 350		
	Less: Adjustment for premium paid on buy back (300)	50	
	Profit & Loss A/c 340		
	Add: Profit on sale of investment 2		
	Less: Transfer to CRR (70)	272	1,322
3.	Tangible assets		
	Machinery	3600	
	Furniture	450	4,050

Working Note:

Cash at bank after buy-back

	₹ in lakhs
Cash balance as on 1st April, 2015	1,500
Add: Sale of investments	150
	1,650
Less: Payment for buy back of shares	(900)
	750

7. (i) Calculation of liability of each underwriter (in shares and in amount)

(Number of shares)

	A	*B*	*C*	*Total*
Gross Liability	50,000	50,000	50,000	1,50,000
Less: Marked applications (excluding firm underwriting)	(24,600)	(20,000)	(15,000)	(59,600)
Balance	25,400	30,000	35,000	90,400

Less: Unmarked applications including firm underwriting	(28,800)	(28,800)	(28,800)	(86,400)
Net Liability	(3,400)	1,200	6,200	4,000
Less: Surplus of A allocated to B and C	3,400	(1,200)	(2,200)	-
	-	-	4,000	4,000
Add: Firm underwriting	25,000	20,000	20,000	65,000
Total Liability in shares	25,000	20,000	24,000	69,000
Total liability in amount @ ₹ 10	2,50,000	2,00,000	2,40,000	6,90,000

(ii) **Commission due** = 50,000 x ₹ 10 x 5% = ₹ 25,000 each

(ii) **Calculation of amount payable to or due from underwriters**

	A	*B*	*C*	*Total*
Total Liability in amount	2,50,000	2,00,000	2,40,000	6,90,000
Less: Underwriting Commission payable @ 5% on amount underwritten	(25,000)	(25,000)	(25,000)	(75,000)
	2,25,000	1,75,000	2,15,000	6,15,000
Amount already paid @ ₹ 5	(1,25,000)	(1,00,000)	(1,00,000)	(3,25,000)
Net amount payable (in ₹)	1,00,000	75,000	1,15,000	2,90,000

8. **Journal of Alia Ltd.**

			(₹)	*(₹)*
1	Sundry Assets A/c	Dr.	5,00,000	
	Goodwill [Balancing Figure]	Dr.	1,20,000	
	To Creditors			70,000
	To Bharat & Co.			5,50,000
	(Being the purchase of Business from Bharat & Co.)			
2	Bharat & Co.	Dr.	5,50,000	
	Loss on Issue of Debentures A/c	Dr.	25,000	
	To 12% Debentures A/c			5,00,000
	To Securities Premium A/c			50,000
	To Premium on Redemption of Debenture A/c			25,000
	(Being the issue of 5000, 12% Debentures at a premium of 10% and repayable at a premium of 5%)			

4	Profit & Loss A/c	Dr.	1,25,000	
	To Debenture Redemption Reserve A/c			1,25,000
	(Being the creation of DRR @ 25% of the value of debentures issued)			
5	Debenture Redemption Reserve Investments A/c	Dr.	75,000	
	To Bank A/c			75,000
	(Being the DRR Investments made equal to 15% of the value of debentures)			
6	Bank A/c	Dr.	75,000	
	To Debenture Redemption Reserve Investments A/c			75,000
	(Being the DRR investments realized)			
7	12% Debentures A/c	Dr.	5,00,000	
	Premium on Redemption of Debentures A/c	Dr.	25,000	
	To Debentureholders A/c			5,25,000
	(Being the amount due on redemption)			
8	Debentureholders A/c	Dr.	5,25,000	
	To Bank A/C			5,25,000
	(Being the payment made to Debentureholders)			
9	Debenture Redemption Reserve A/c	Dr.	1,25,000	
	To General Reserve			1,25,000
	(Being the transfer of DRR to General Reserve)			

9. (i) Calculation of the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of purchase consideration

Calculation of purchase consideration:	₹
Agreed value of assets taken over:	
Bills receivable	15,000
Freehold premises	4,00,000
Furniture & fittings	80,000
Machinery	1,60,000
Inventory	3,45,000
	10,00,000

Discharge of purchase consideration:

1. Amount paid by allotment of 13% preference shares

$$= ₹\ 10,00,000 \times \frac{1}{4}$$

$$= ₹\ 2,50,000$$

Number of 13% preference shares of ₹ 100 each

$$= \frac{2,50,000}{100} = 2,500 \text{ preference shares}$$

2. Amount paid by allotment of equity shares

$$= ₹\ 10,00,000 - ₹\ 2,50,000 = ₹\ 7,50,000$$

Paid up value of one equity share = ₹ 8 each

Hence, the number of equity shares allotted

$$= \frac{₹\ 7,50,000}{₹\ 8} = 93,750 \text{ equity shares}$$

(ii) Ledger accounts in the books of Reckless Ltd.

Realisation Account

	₹		₹
To Freehold Premises	2,20,000	By Creditors	1,13,000
To Machinery	1,77,000	By Acceptances	20,000
To Furniture & Fittings	90,800	By Provision for tax	1,10,000
To Inventory	3,87,400	By Provision for doubtful debts	4,000
To Sundry Debtors	80,000	By Careful Ltd.	10,00,000
To Bills Receivable	15,000	By Cash/Bank:	
To Cash/ Bank:		Sundry Debtors	79,500
Acceptances	19,000		
Provision for tax	1,11,600		
Creditors	1,03,700		
To Cash/Bank:			
Liquidation expenses	4,000		
To Profit	1,18,000		
	13,26,500		13,26,500

Cash and Bank Account

	₹		₹
To Balance b/d (cash at bank)	1,56,500	By Realisation A/c (Acceptances)	19,000
To Cash in hand	2,300	By Provision for tax	1,11,600
To Realisation A/c	79,500	By Realisation (Expenses)	4,000
		By Realisation A/c [Creditors(bal fig.)]	1,03,700
	2,38,300		2,38,300

Equity Shareholders Account

	₹		₹
To 13% Cumulative preference shares in Careful Ltd.	2,50,000	By Equity Share Capital	6,00,000
		By Pre-incorporation profit	21,000
		By Contingency reserve	1,35,000
To Equity Shares in Careful Ltd.	7,50,000	By Profit & Loss Account	1,26,000
		By Realisation Account	1,18,000
	10,00,000		10,00,000

Careful Ltd. Account

	₹		₹
To Realisation Account	10,00,000	By 13% Cumulative preference shares in Careful Ltd.	2,50,000
		By Equity shares in Careful Ltd.	7,50,000
	10,00,000		10,00,000

10. **Journal Entries**

		₹	₹
Bank A/c	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Being money on final call received)			
Equity share capital (₹ 50) A/c	Dr.	75,00,000	
To Equity share capital (₹ 40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of ₹ 50 each into ₹ 40 each as per reconstruction scheme)			

Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at ₹ 40 each)			
Trade payables A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To A A/c			7,00,000
(Being cancellation of 8% and 12% debentures of A)			
A A/c	Dr.	8,00,000	
To 15% Debentures A/c			6,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Bank A/c	Dr.	1,00,000	
To A A/c			1,00,000
(Being new debentures subscribed by A)			
8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To B A/c			3,00,000
(Being cancellation of 8% and 12% debentures of B)			
B A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building (51,84,000 – 42,70,000)	Dr.	9,14,000	

Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			
Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			
Capital Reduction A/c	Dr.	33,41,000	
To Machinery A/c			1,30,000
To Computers A/c			1,20,000
To Trade receivables A/c			1,09,000
To Profit and Loss A/c			29,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance and downfall in value of other assets)			
Capital Reserve A/c	Dr.	5,00,000	
To Capital Reduction A/c			5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)			

Balance Sheet of Xylem Ltd. (as reduced) as on 31.3.2015

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

Notes to accounts

			₹
1.	Share Capital		
	2,00,000 Equity shares of ₹ 40		80,00,000
2.	Long-term borrowings		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	Tangible assets		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

1. Cash at Bank Account

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

2. Capital Reduction Account

	Particulars	₹		Particulars	₹
To	Machinery A/c	1,30,000	By	Equity Share Capital A/c	15,00,000
To	Computers A/c	1,20,000	By	Trade payables A/c	1,47,000
To	Trade receivables A/c	1,09,000	By	A A/c	2,00,000
To	Profit and Loss A/c	29,82,000	By	B A/c	50,000
			By	Land & Building	9,14,000
			By	Inventories	30,000
			By	Capital Reserve A/c	5,00,000
		33,41,000			33,41,000

11. **Liquidator's Final Statement of Account**

Receipts	₹	*Payments*	₹
Assets realized	3,80,400	Liquidation Expenses	1,000
Call on contributories: 2,000	20,000	Liquidator's Remuneration	400
Equity Shares @ ₹ 10 per share		Unsecured Creditors	99,000
(W.N.)		Preference Share holders	3,00,000
	4,00,400		4,00,400

Working Notes:

(i) Calculation of Shortage of funds	₹
Total Amount Available	3,80,400
Less: liquidation Expenses	(1,000)
Balance	3,79,400
Less: Unsecured Creditors	(99,000)
Balance	2,80,400
Less: Pref. Shareholders	(3,00,000)
Shortage of Funds	19,600

(ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

$$\text{Shortage of funds} \times \frac{100}{100 - \text{Rate of Commission}} = ₹\,19,600 \times \frac{100}{100-2}$$

$$= \frac{₹19,600 \times 100}{98} = ₹\ 20,000$$

(iii) Uncalled Capital @ ₹ 25 on 2,000 shares = ₹ 50,000

(iv) Amount of Calls to be made (least of funds required and uncalled capital) i.e. ₹ 20,000

(v) Commission on Call = ₹ 20,000 x 2/100 = ₹ 400

12. (a) **Net Premium earned**

		₹
Premium from direct business received	17,60,000	
Add: Receivable as 31.03.2015	75,400	
Less: Receivable as on 01.04.2014	(87,800)	17,47,600
Add: Premium on re-insurance accepted	1,50,400	

Add: Receivable as on 31.03.2015	6,400	
Less: Receivable as on 01.04.2014	(7,200)	1,49,600
		18,97,200
Less: Premium on re-insurance ceded	1,21,800	
Add: Payable as on 31.03.2015	3,600	
Less: Payable as on 01.04.2014	(5,400)	
		(1,20,000)
Net Premium earned		17,77,200

(b) Modern Insurance Company (Abstract showing the amount of claims)

Net Claims incurred

			₹
Claims paid on direct business (7,06,000 + 7,600 + 8,400)			7,22,000
Add: Re-insurance	1,64,000		
Add: Outstanding as on 31.3.2015	17,400		
Less: Outstanding as on 1.4.2014	(11,600)		1,69,800
			8,91,800
Less : Claims received from re-insurance		64,000	
Add: Outstanding as on 31.3.2015		28,400	
Less: Outstanding as on 1.4.2014		(17,000)	(75,400)
			8,16,400
Add : Outstanding direct claims at the end of the year			1,75,000
			9,91,400
Less : Outstanding claims at the beginning of the year			(1,64,600)
Net claims incurred			8,26,800

13. Statement showing the amount of provisions on Assets:

			(₹ in lakhs)
Assets	*Amount*	*% of provision*	*Provision*
Standard	5,000	0.40	20
Sub-standard:			
Secured	1,000	15	150
Other unsecured	1,000	25	250
Unsecured infrastructure	1500	20	300

Doubtful:			
up to one year	500	25	125
up to 3 years	600	40	240
For more than three years	300	100	300
Doubtful unsecured	1,600	100	1,600
Loss	100	100	100
Required provision			3,085

14. Trading and Profit and Loss Account

for the year ended on 31st Match, 2015

Particulars	*A (₹)*	*B (₹)*	*C (₹)*	*Particulars*	*A (₹)*	*B (₹)*	*C (₹)*
To Opening Stock	8,500	5,700	1,200	By Sales less Sales returns	50,000	30,000	20,000
To Purchases	22,000	17,000	8,000	By Closing Stock	3,500	2,000	1,500
To Freight & carriage	1,400	800	200				
To wages	800	700	200				
To Gross profit	20,800	7,800	11,900				
	53,500	32,000	21,500		53,500	32,000	21,500
To Salaries	2,250	1,350	900	By Gross Profit	20,800	7,800	11,900
To Power & Water	600	360	240	By Net Loss	-	465	-
To Telephone Charges	1,050	630	420				
To Bad Debts	375	225	150				
To Rent & Taxes	3,000	1,800	1,200				
To Insurance	750	450	300				
To Printing & Stationery	1,000	600	400				
To Advertising	1,750	1,050	700				
To Depreciation (2,000 +4,000)	3,000	1,800	1,200				
To Net Profit	7,025		6,390				
	20,800	8,265	11,900		20,800	8,265	11,900

Balance Sheet as at 31.03.2015

Liabilities	₹		*Assets*	₹	
Capital A/c	40,000		Furniture & Fixtures		4,600
Add: Net Profit			Plant & Machinery	20,000	

(₹ 7,025 + ₹ 6,390)	13,415				
	53,415		*Less:* Depreciation	2,000	18,000
Less: Net loss in Dept B	465		Motor Vehicles	40,000	
	52,950		*Less:* Depreciation	4,000	36,000
Less: Drawings	1,500	51,450	Sundry Debtors		12,200
Sundry Creditors		15,000	Cash in hand		850
Bank Overdraft		12,000	Closing Stock		7,000
Wages Outstanding		200			
		78,650			78,650

15. Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	₹	*Particulars*	₹
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	1,280
	4,85,888		4,85,888

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	₹	*Particulars*	₹
To Opening [₹74,736 + 1/3 of ₹ 74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c (₹ 1,23,328 x 25/100]	30,832	By goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	40,240		
	6,06,080		6,06,080

Step 3: Calculation of Commission still due to manager

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240 x 10/100]	4,024
B	Less: 25% of cost of deficiency in stock (25% of (75% of ₹ 1,280)	(240)
C	Commission for the year [A-B]	3,784
D	Less : Paid on account	(2,400)
E	Balance due (C-D)	1,384

16. Trial Balance (in Rupees) of New York (USA) Branch as on 31st March, 2015

Particulars	*Dr. US $*	*Cr. US$*	*Conversion Rate*	*Dr. (₹)*	*Cr. (₹)*
Fixed Assets	46,080		43	19,81,440	
Depreciation on Fixed Assets	5,120		43	2,20,160	
Opening Stock	22,400		47	10,52,800	
Purchases	96,000		45	43,20,000	
Sales		1,66,400	45		74,88,000
Goods sent from H.O	32,000			15,80,000	
Carriage inward	400		45	18,000	
Branch Expenses (4,800 + 400)	5,200		45	2,34,000	
Outstanding Expenses		400	50		20,000
Head Office A/c		45,600			20,50,000
Trade Debtors	9,600		50	4,80,000	
Trade Creditors		6,800	50		3,40,000
Cash & Bank	2,400		50	1,20,000	
Exchange Gain (bal.fig.)					1,08,400
	2,19,200	2,19,200		1,00,06,400	1,00,06,400

Exchange Difference of ₹ 1,08,400 will be credited to the Statement of Profit & Loss.

17. (a) For the information given, the following will be recommended treatment with reference to the provisions of AS 4: Contingencies and Events Occurring After the Balance Sheet Date.

    (1) The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, the event would appear to be of such significance as to require a disclosure in the report of the approving authority to enable users of the financial statements to make proper evaluation and decision, hence, such disclosure is recommended.

    (2) AS 4 defines events occurring after the balance sheet date as those significant event- both favorable and unfavorable – that occur between the balance sheet date and the date on which the financial statements are approved by the approving authority. Accordingly, negotiation for acquisitions of two manufacturing units which started on 30th April, 2015 should be disclosed in the Board's Report. No adjustments of assets and liabilities are required, as the negotiation does not affect the determination and the conditions of the amounts stated in the financial statements for the year ended 31st March, 2015.

    (3) The foreign exchange loss due to changes in exchange rates during the period 1st April 2015 and 1st June 2015, is a non adjusting event since it does not relate to the conditions existing at the balance sheet date. The amount of loss appears material and may be of such significance that requires disclosure in the report of the approving authority.

    (b) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

    Accordingly, exchange difference on trade receivables amounting ₹ 23,077 {₹ 5,23,077(US $ 8547* x ₹ 61.20) less ₹ 5,00,000} should be charged to profit & Loss account.

18. (a) As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, *i.e.,* they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

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*US $ 8,547 = 5,00,000/58.50

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue. Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

(b) (a) Interest for the period 2014-15

= US $ 10 lakhs x 4% × ₹ 62 per US$ = ₹ 24.80 lakhs

(b) Increase in the liability towards the principal amount

= US $ 10 lakhs × ₹ (62 - 56) = ₹ 60 lakhs

(c) Interest that would have resulted if the loan was taken in Indian currency

= US $ 10 lakhs × ₹ 56 x 10.5% = ₹ 58.80 lakhs

(d) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 58.80 lakhs - ₹ 24.80 lakhs = ₹ 34 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 58.80 lakhs being the aggregate of interest of ₹ 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 34 lakhs.

Hence, ₹ 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining ₹ 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

19. (a) Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year

= ₹ 50,000 x 0.7513

= ₹ 37,565

Present value of lease payments = ₹ 5,00,000 – ₹ 37,565

= ₹ 4,62,435

The percentage of present value of lease payments to fair value of the equipment is (₹ 4,62,435/ ₹ 5,00,000) x 100 = 92.487%.

Since, it substantially covers the major portion of the lease payments, the lease constitutes a finance lease.

(b) Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights + Total amount received from exercise of rights}}{\text{Number of shares outstanding prior to exercise + number of shares issued in the exercise}}$$

$$\frac{(₹\ 21.00 \times 5{,}00{,}000 \text{ shares}) + (₹\ 15.00 \times 1{,}00{,}000 \text{ shares})}{5{,}00{,}000 \text{ shares} + 1{,}00{,}000 \text{ shares}}$$

Theoretical ex-rights fair value per share = ₹ 20.00

Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = \frac{₹\ (21.00)}{₹\ (20.00)} = 1.05$$

Computation of earnings per share

	Year 2013-14	Year 2014-15
EPS for the year 2013-14 as originally reported: (₹ 11,00,000/5,00,000 shares)	₹ 2.20	
EPS for the year 2013-14 restated for rights issue: [₹ 11,00,000/ (5,00,000 shares x 1.05)]	₹ 2.10	
EPS for the year 2014-15 including effects of rights issue $\frac{₹\ 15{,}00{,}000}{(5{,}00{,}000 \times 1.05 \times 2/12) + (6{,}00{,}000 \times 10/12)}$		₹ 2.55

20. (a) As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on a systematic basis over its useful life. Also there is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years from the date it is available for use. The amortization should commence when the asset is available for use. As per para 78 of AS 26, if there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern.

The company has been following a policy of amortization over a period of 8 years. As on 01-4-2015, 5 years have passed and the carrying amount stands at ₹ 30 lakhs. If the same treatment were to be continued, this would have been amortized over the next 3 years. But the revised estimate of remaining useful life would extend the period by another 5 years to amortize the carrying amount, the Company would be advised to amortise the carrying value over the next 5 years. Thus after revision in estimated useful life, the amount of ₹ 30 lacs would be amortised over next 5 years.

(b) (i) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognised. Sun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Sun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Sun Ltd. should provide for the contingency amounting ₹ 1.5 crores as per AS 29.

(ii) Provision should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31st March, 2014 and no profit had accrued for the financial year 2013-2014. Therefore, provision should be made.