PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2013 EXAMINATION

A. Applicable for May, 2013 examination

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

B. Not applicable for May, 2013 examination

Ind ASs issued by the Ministry of Corporate Affairs

The MCA has hosted on its website 35 converged Indian Accounting Standards (Ind AS) without announcing the applicability date. These are the standards which are being converged by eliminating the differences of the Indian Accounting Standards vis-à-vis IFRS. These standards shall be applied for all companies falling under Phase I to Phase III as prescribed under the roadmap issued by the core group. These Ind ASs are not applicable for the students appearing in May, 2013 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. The following is the Trial Balance of Omega Limited as on 31.3.2012:

(Figures in ₹ '000)

	Debit		*Credit*
Land at cost	220	Equity Capital (Shares of ₹ 10 each)	300
Plant & Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.3.12)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4

Debenture Interest	20		
Interim Dividend Paid	18		
	1670		1670

Additional Information:

(i) The authorised share capital of the company is 40,000 shares of ₹ 10 each.

(ii) The company on the advice of independent valuer wish to revalue the land at ₹ 3,60,000.

(iiii) Proposed final dividend @ 10%.

(iv) Suspense account of ₹ 4,000 represents cash received for the sale of some of the machinery on 1.4.11. The cost of the machinery was ₹ 10,000 and the accumulated depreciation thereon being ₹ 8,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare Omega Limited's Balance Sheet as on 31.3.2012 and Statement of Profit and Loss for the year ended 31.3.2012 as per Revised Schedule VI. Ignore previous years' figures & taxation.

Cash Flow Statements

2. ABC Ltd. has given the following information for the preparation of cash flow statement for the year ended 31st March, 2012:

	(₹ in lakhs)
Net Profit after tax	50,000
Dividend (including dividend tax) paid	17,070
Provision for Income tax	10,000
Income tax paid during the year	8,496
Loss on sale of assets (net)	80
Book value of the assets sold	370
Depreciation charged to Statement of Profit & Loss	40,000
Amortisation of Capital grant	12
Profit on sale of Investments	200
Carrying amount of Investment sold	55,530
Interest received on investments	5,012
Interest expenses of the year	20,000
Interest paid during the year	21,040
Increase in Working Capital (excluding cash & bank balance)	1,12,150

Purchase of fixed assets	1,06,300
Proceeds from calls in arrear	4
Receipt of grant for capital projects	24
Proceeds from long-term borrowings	51,960
Proceeds from short-term borrowings	41,150
Opening cash and bank balance	10,006
Closing cash and bank balance	13,976

You are required to prepare the Cash Flow Statement for the year ended 31st March, 2012 as per AS 3.

Managerial Remuneration

3. From the following information of Alpha Ltd., calculate the managerial remuneration payable to the managing director of the company at the rate of 5% of the profits assuming that there is only one managing director in the company.

	₹
Net Profit	4,00,000
Net Profit is calculated after considering the following:	
Depreciation	1,00,000
Tax provision	6,20,000
Director's fees	16,000
Bonus	88,000
Profit on sale of fixed assets (original cost: ₹ 40,000 written down value: ₹ 22,000)	31,000
Managing Director's remuneration paid	60,000
Other information:	
Depreciation allowable under Schedule XIV to the Companies Act,1956	70,000
Bonus liability as per the Payment of Bonus Act, 1965	40,000

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Riddhi Ltd., a listed company as at March 31, 2012:

	₹
Authorised Capital:	
40,000, 12% Preference shares of ₹10 each	8,00,000

4,00,000, Equity shares of ₹ 10 each	80,00,000
	88,00,000
Issued and Subscribed Capital:	
64,000 12% Preference shares of ₹ 10 each fully paid	6,40,000
7,20,000 Equity shares of ₹ 10 each fully paid-up	72,00,000
Reserves and Surplus:	
Revaluation reserve	1,60,000
General reserve	10,00,000
Capital reserve	6,00,000
Securities premium	2,00,000
Profit & Loss (Cr.)	14,00,000

On April 30, 2012, the company decided to capitalize its reserves by way of Bonus shares issued at the rate of 1:4. Securities premium of ₹ 2,00,000 includes a premium of ₹ 40,000 for shares issued pursuant to a scheme of amalgamation. Capital reserve includes ₹ 3,20,000 being profit on sale of plant and machinery. The balance amount of capital reserve has been created due to revaluation of land.

Comment with reason on the following:

(i) Whether Revaluation Reserve can be capitalized?

(ii) How much amount of Capital reserve can be capitalized?

(iii) How much amount of 'Securities Premium A/c' can be capitalized?

(iv) Number of equity shares to be issued by way of bonus as on 30th April, 2012.

Profit or Loss Prior to Incorporation

5. Ramesh formed a private limited company under the name of Ramesh Private Limited to take over his existing business as from April 1, 2011, but the company was incorporated on July 1, 2011. No entries relating to transfer of the business were entered in the books, and the business was carried on without a break until March 31, 2012.

The following Trial Balance was extracted from the book as on March 31, 2012:

	Dr.	*Cr.*
	₹	₹
Stock on April 1, 2011	8,600	
Sales		55,600
Purchases	37,800	
Carriage Outwards	660	

Travellers' Commission	1,500	
Office Salaries and Expenses	4,200	
Rent and Rates	2,400	
Ramesh's Capital Account (April 1, 2011)		46,000
Directors' Fees	3,600	
Fixed Assets	26,800	
Current Liabilities		7,400
Current Assets (other than inventory)	22,400	
Preliminary Expenses	1,040	
	1,09,000	1,09,000

You are also given the following information:

(a) Stock as on March 31, 2012, ₹ 8,800

(b) The purchase consideration was agreed at ₹ 60,000 to be satisfied by the issue of 6,000 Equity Shares of ₹ 10 each.

(c) The gross profit margin is constant and the monthly sales in April, 2011, February, 2012 and March, 2012 are double the monthly sales for the remaining months of the year.

(d) The preliminary expenses are to be written off.

(e) Assume that carriage outwards and travellers' commission vary in direct proportion to sales.

You are required to prepare Draft Trading and Profit and Loss Account for the year ended March 31, 2012 apportioning cost and revenue between pre and post incorporation periods. Ignore depreciation.

Internal Reconstruction of a Company

6. The shareholders of Maitri Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2012 and the information supplied, you are required to prepare (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Maitri Ltd.

Summarised Balance Sheet of Maitri Ltd. as on 31.3.2012

Liabilities	₹	*Assets*	₹
Share Capital		Fixed Assets	
30,000 Equity shares of ₹ 10 each	3,00,000	Trademarks and Patents	1,10,000

40,000 8% Cumulative Preference shares ₹ 10 each	4,00,000	Goodwill at cost	36,100
Reserves and Surplus		Freehold Land	1,20,000
		Freehold Premises	2,44,000
Securities Premium Account	10,000	Plant and Equipment	3,20,000
Profit and Loss Account	(1,38,400)	Investment (marked to market)	64,000
Secured Borrowings			
9% Debentures (₹100) 1,20,000		Current Assets	
Accrued Interest 5,400	1,25,400	Inventories:	
Current liabilities		Raw materials and packing materials 60,000	
Trade payables	1,20,000		
Vat payable	50,000	Finished goods 16,000	76,000
Temporary bank overdraft	2,23,100	Trade receivables	1,20,000
	10,90,100		10,90,100

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

(1) The authorized capital of the Company to be re-fixed at ₹ 10 lakhs (preference capital of ₹ 3 lakhs and equity capital of ₹ 7 lakhs). Both classes of shares are of ₹ 10 each.

(2) The preference shares are to be reduced to ₹ 5 each and equity shares reduced by ₹ 3 per share. Post reduction, both classes of shares to be re-consolidated into ₹ 10 shares.

(3) Trade Investments are to be liquidated in open market.

(4) One fresh equity shares of ₹ 10 to be issued for every ₹ 40 of preference dividends in arrears (ignore taxation).

(5) Expenses for the scheme were ₹ 10,000.

(6) The debenture holders took over freehold land at ₹ 2,10,000 and settled the balance after adjusting their dues.

(7) Unprovided contingent liabilities were settled at ₹ 54,000 and a pending insurance claim receivable settled at ₹ 12,500.

(8) The intangible assets were all to be written off along with ₹ 10,000 worth obsolete packing material and 10% of the receivables.

(9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.

(10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose.

Amalgamation of Companies

7. A Ltd. and B Ltd. were amalgamated on and from 1st April, 2012. A new company C Ltd. was formed to take over the business of the existing companies. The summarized Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2012 are given below:

	(₹ in lakhs)			(₹ in lakhs)	
Liabilities	*A Ltd.*	*B Ltd.*	*Assets*	*A Ltd.*	*B Ltd.*
Share Capital			*Fixed Assets*		
Equity Shares of ₹ 100 each	800	750	Land and Building	550	400
12% Preference shares of ₹ 100 each	300	200	Plant and Machinery	350	250
Reserves and Surplus			*Investments*	150	50
Revaluation Reserve	150	100	*Current Assets, Loans and Advances*		
General Reserve	170	150			
Investment Allowance Reserve	50	50	Stock	350	250
Profit and Loss Account	50	30	Sundry Debtors	250	300
Secured Loans			Bills Receivable	50	50
10% Debentures (₹ 100 each)	60	30	Cash and Bank	300	200
Current Liabilities and Provisions					
Sundry Creditors	270	120			
Bills Payable	150	70			
	2,000	1,500		2,000	1,500

Additional Information:

(1) 10% Debentureholders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹ 150 per share (face value of ₹ 100).

(3) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.

(4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 2012 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.

Average Due Date

8. (a) Dox owes Wax ₹ 2,000 on 1st April, 2012. From 1st April, 2012 to 30th June, 2012 the following further transactions took place between Dox and Wax:

April 10 Dox buys goods from Wax for ₹ 5,000

May 16 Dox receives cash loan of ₹ 10,000 from Wax

June 9 Dox buys goods from Wax for ₹ 3,000

Dox pays the whole amount, together with interest @ 15% per annum, to Wax on 30th June, 2012. Calculate the interest paid by Dox on 30th June, 2012 by the average due-date method.

Account Current

(b) From the following transactions in the books of Mr. Kumar, prepare an Account Current, by means of product to be sent by him to Ms. Neena for the quarter ending 31st March, 2012. Interest is to be charged and/or allowed @ 12% p.a.

2012		₹
January 1	Balance in Neena's Account (Credit)	3,500
January 12	Sold goods to Neena (due 1st February)	30,000
January 31	Sold goods to Neena (due 15th February)	27,500
February 15	Cash received	40,000
February 20	Cash received	7,500
March 10	Goods returned by Neena	7,000
March 25	Cash received	6,500

Self – Balancing Ledgers

9. Prepare the General Ledger Adjustment Account as will appear in the Debtors' Ledger from the information given below:

	Dr.	Cr.
	₹	₹
Balances on 1.4.2012		
Debtors' Ledger	94,400	480
Transactions for the year ended 31.3.2013:		
Total sales	2,40,000	
Cash sales	16,000	

Received from debtors (in full settlement of ₹ 1,18,000)	1,16,400	
Returns from debtors	5,200	
Bills accepted by customers	40,200	
Bills receivables dishonoured	3,000	
Bills receivable discounted	10,000	
Bills receivable endorsed to creditors	8,000	
Endorsed bills dishonoured	2,000	
Bad debts written off (after deducting bad debts recovered ₹ 600)	4,400	
Provision for doubtful debts	1100	
Transfer from debtors' ledger to creditors' ledger	2,200	
Transfer from creditors' ledger to debtors' ledger	3,800	
Balance on 31.3.2013		
Debtors' ledger	760	

Financial Statements of Not-For-Profit Organizations

10. The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2012.

Receipts	₹	*Payments*	₹
Opening balance		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at		Garden upkeep	8,000
Coffee room	10,70,000	Membership fees	4,000
Wines and spirits	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The assets and liabilities as on 1.4.2011 were as follows:

	₹
Fixed assets (net)	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts:

(i) Subscription received in advance as on 31st March, 2012 was ₹ 18,000.

(ii) Outstanding subscription as on 31st March, 2012 was ₹ 7,000.

(iii) Outstanding expenses are salaries ₹ 8,000 and electricity ₹ 15,000.

(iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2012.

(v) The cost of assets sold net as on 1.4.2011 was ₹ 10,000.

(vi) Depreciation is to be provided at the rate of 10% on assets.

(vii) A sum of ₹ 20,000 received in October 2011 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2012.

(viii) Purchases made during the year amounted ₹ 15,00,000.

(ix) The value of closing stock was ₹ 2,10,000.

(x) The club as a matter of policy, charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2012 and the Balance Sheet as on 31st March, 2012 along with necessary workings.

Accounts from Incomplete Records

11. Ms. Rashmi furnishes you with the following information relating to her business:

(a) Assets and liabilities as on 1.1.2012 31.12.2012

	₹	₹
Furniture (w.d.v)	12,000	12,700
Stock at cost	16,000	14,000
Sundry Debtors	32,000	?
Sundry Creditors	22,000	30,000
Prepaid expenses	1,200	1,400
Unpaid expenses	4,000	3,600
Cash in hand and at bank	2,400	1,250

(b) Receipts and payments during 2012 :

Collections from debtors, after allowing discount of ₹ 3,000 amounted to ₹ 1,17,000.

Collections on discounting of bills of exchange, after deduction of discount of ₹ 250 by the bank, totalled to ₹ 12,250.

Creditors of ₹ 80,000 were paid ₹ 78,400 in full settlement of their dues.

Payment for freight inwards ₹ 6,000.

Amount withdrawn for personal use ₹ 14,000.

Payment for office furniture ₹ 2,000.

Investment carrying annual interest of 4% were purchased at ₹ 96 (face value ₹ 200) on 1st July, 2012 and payment made therefor.

Expenses including salaries paid ₹ 29,000.

Miscellaneous receipts ₹ 1,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 20,000. Of these, bills of exchange of ₹ 4,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 800 was dishonoured.

(d) Goods costing ₹ 1,800 were used as advertising materials.

(e) Goods are invariably sold to show a gross profit of 33-1/3% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by Ms. Rashmi.

(g) Provide at 2.5% for doubtful debts on closing debtors.

Rashmi asks you to prepare trading and profit and loss account for the year ended 31st December, 2012 and the balance sheet as on that date.

Hire -Purchase

12. From the following information extracted from the books of Mohan Pvt. Ltd. prepare Hire Purchase Trading account for the year ended 31.3.2012, showing the profit in respect of the hire-purchase business of the company:

    (i) Instalments due but not received on 1.4.2011 – ₹ 30,000.

    (ii) Instalments due but not received on 31.3.2012 – ₹ 50,000.

    (iii) Cash received during the year ended 31st March 2012 by way of a hire-purchase instalments - ₹ 40,00,000.

    (iv) Value of Stock 'out' on hire-purchase as at 1.4.2011 at hire-purchase price (loading 20% above cost) - ₹ 1,20,000.

    (v) Cost price of truck 'out' in hire-purchase as on 31.3.2012, amounted ₹ 20,00,000, in respect of which instalments receivable were ₹ 24,00,000 and instalments received and due up to 31.3.2012 amounted ₹ 18,00,000 in total.

    (vi) Purchase of trucks during the financial year 2011-12 - ₹ 40,00,000.

    (vii) Sale of trucks, otherwise than on H.P. (at a profit of 6.25% of cost thereof) - ₹ 4,25,000.

    (viii) Body building charges in respect of truck, sold on H.P. - ₹ 2,00,000.

    (ix) Interest paid was ₹ 40,000 and unsold trucks on 31.3.2012 at cost price were ₹ 80,000 (Hire-purchase price ₹ 96,000).

Investment Accounts

13. The following transactions of Nidhi took place during the year ended 31st March 2012:

1st April	Purchased ₹ 12,00,000, 8% bonds at ₹ 80.50 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of ₹ 10 each in X Ltd. for ₹ 40,00,000
1st May	Received half-year's interest on 8% bonds.
15th May	X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 bonus shares for ₹ 20 each.
1st October	Sold ₹ 3,00,000, 8% bonds at ₹ 81 ex-interest.
1st November	Received half-year's bond interest.
1st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment account in the books of Nidhi for the year ended 31st March, 2012.

Insurance Claim for Loss of Profit

14. From the following particulars, you are required to calculate the amount of claim for Buildwell Ltd., whose business premises was partly destroyed by fire:

Sum insured (from 31st December 2011)	₹ 4,00,000
Period of indemnity	12 months
Date of damage	1st January, 2012
Date on which disruption of business ceased	31st October, 2012

The subject matter of the policy was gross profit but only net profit and insured standing charges are included.

The books of account revealed:

(a) The gross profit for the financial year 2011 was ₹ 3,60,000.

(b) The actual turnover for financial year 2011 was ₹ 12,00,000 which was also the turnover in this case.

(c) The turnover for the period 1st January to 31st October, in the year preceding the loss, was ₹ 10,00,000.

During dislocation of the position, it was learnt that in November-December 2011, there has been an upward trend in business done (compared with the figure of the previous years) and it was stated that had the loss not occurred, the trading results for 2012 would have been better than those of the previous years.

The Insurance company official appointed to assess the loss accepted this view and adjustments were made to the pre-damaged figures to bring them up to the estimated amounts which would have resulted in 2012.

The pre-damaged figures together with agreed adjustments were:

Period	Pre-damaged figures	Adjustment to be added	Adjusted standard turnover
	₹	₹	₹
January	90,000	10,000	1,00,000
Feb. to October	9,10,000	50,000	9,60,000
November to December	2,00,000	10,000	2,10,000
	12,00,000	70,000	12,70,000
Gross Profit	3,60,000	46,400	4,06,400

Rate of Gross Profit 30% (actual for 2011), 32% (adjusted for 2012).

Increased cost of working amounted to ₹ 1,80,000.

There was a clause in the policy relating to savings in insured standard charges during the indemnity period and this amounted to ₹ 28,000.

Standing Charges not covered by insurance amounted to ₹ 20,000 p.a. The annual turnover for January was nil and for the period February to October 2012 ₹ 8,00,000.

Partnership: Admission and Retirement of a partner

15. Glad and Happy, who make up their accounts to 30 September in each year, carried on business in partnership under the firm name of Feelings.

    Their partnership agreement provided:

    (1) Profits and losses should be shared Glad - two-third and Happy - one-third.

    (2) Interest on capital accounts should be allowed at the rate of 6% per annum but no interest should be allowed or charged on current accounts.

    (3) On the retirement or admission of a partner:

    (i) If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission is to be arrived at by apportionment on a time basis except where otherwise agreed.

    (ii) No account for goodwill is to be maintained in the firm's books, any adjusting entries for transactions between the partners being made in their capital accounts.

    (iii) Any balance due to an outgoing partner is to carry interest at 8% per annum from the date of his retirement to the date of payment.

    Glad retired from the firm on 31st March 2012 and, on the same day, Happy took into partnership Joy, an employee of the firm. It was agreed that the terms of the previous partnership agreement should apply in all respects except that, as from the date, profits or losses are to be shared: Happy - three-fifth, Joy - two-fifth.

    The trial balance extracted from the books of the firm as on 30th September 2012 was as follows:

Particulars	₹	₹
Capital Accounts – 30th September 2011		
Glad	-	8,000
Happy	-	6,000
Current Accounts – 30th September 2011		
Glad	-	2,400
Happy	-	1,600
Joy – Cash introduced 31st March, 2012	-	3,000

Plant and machinery at cost	14,000	-
Plant and machinery: Provision for depreciation - 30th September, 2011	-	2,800
Motor vehicles at cost	6,200	-
Motor vehicles: provision for depreciation – 30th September 2011	-	3,400
Purchases	62,000	-
Stock – 30th September 2011	12,400	-
Wages	14,600	-
Salaries	10,800	-
Debtors	4,600	-
Sales	-	96,000
Trade expenses	1,600	-
Creditors	-	6,200
Rent and rates	1,400	-
Bad debts	600	-
Balance at bank	1,200	-
	1,29,400	1,29,400

You are given the following further information:

(1) The value of the firm's goodwill as on 31st March 2012 was agreed to be ₹12,000.

(2) On 31st March, 2012, Joy had paid Glad ₹ 5,000 on account of the balance due to him on retirement. But no entry had been made in the books in respect of this payment. The balance due to Glad after taking into account this payment remained unpaid as on 30th September, 2012.

(3) Glad on retirement had taken over one of the firm's motor vehicles and it was agreed that he should be charged for it at its written down value on the date of his retirement. The vehicle had cost ₹ 1,400 and up to 30th September, 2011 depreciation of ₹ 625 had been provided on it.

(4) The stock as on 30th September 2012 was valued at ₹ 14,200.

(5) Partners' drawings which are included in salaries were as follows:

Glad ₹ 1,800; Happy ₹ 2,400; Joy ₹ 900.

(6) Salaries also included ₹ 1,200 paid to Joy prior to his being admitted as a partner and which is to be charged against the half-year profits of the firm.

(7) Professional charges of ₹ 250 included in trade expenses are specifically attributable to the second half of the year.

(8) The whole of the charge of ₹ 600 for bad debts related to the period upto 31st March, 2012.

(9) A bad debts provision specifically, attributable to the second half of the year of 5% of the total debtors is to be made as on 30th September 2012.

(10) As on 30th September 2012, rent paid in advance amounted to ₹ 400 and trade expenses accrued amounted to ₹ 180.

(11) Provision is to be made for depreciation on plant and machinery and on motor vehicles at the rates of 10% and 25% per annum respectively, calculated on cost.

You are required to prepare:

(a) The Trading and profit and loss account for the year ended 30th September 2012.

(b) Partner's capital and current accounts for the year ended 30th September 2012; and

(c) The balance sheet as on that date.

Accounting in Computerized Environment

16. (a) What are the advantages of outsourcing the accounting functions?

(b) Write a short note on a pre-packaged accounting software?

AS 1 "Disclosure of Accounting Policies"

17. (a) FINMIN Ltd. is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claim/petitions in a Special Court. FINMIN Ltd. has accepted Inter-Corporate Deposits (ICDs) and is making its best efforts to settle the dues. There were claims at varied rates of interest from lenders from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non provision of interest from the due date to date of repayment was affected in the financial statements. On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt," and the same has been disclosed by way of a note in the accounts instead of making a provision in the statement of profits and loss. Comment on the correctness of the treatment for such claims as done by the company.

AS 2 "Valuation of Inventories"

(b) The closing inventory at cost of XYZ Ltd. amounted to ₹ 9,56,700. 350 Shirts, which had cost ₹ 380 each and normally sold for ₹ 750 each are included in this amount of ₹ 9,56,700. Owing to a defect in manufacture, they were all sold after the Balance Sheet date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds. What should be the closing inventory value?

AS 3 "Cash Flow Statements"

18. (a) Classify the following activities as (1) Operating Activities, (2) Investing Activities, (3) Financing Activities:

a. Purchase of Machinery.

b. Proceeds from issuance of equity share capital.

c. Cash Sales.

d. Proceeds from long-term borrowings.

e. Proceeds from Debtors.

f. Brokerage paid on purchase of investments.

AS 6 "Depreciation Accounting"

(b) A plant was depreciated under two different methods as under:

Year	S.L.M (₹ in lakhs)	W.D.V. (₹ in lakhs)
1	39.00	106.90
2	39.00	79.00
3	39.00	58.40
4	39.00	43.20
	156.00	287.50
5	39.00	31.90

What should be the amount of resultant surplus/deficiency, if the company decides to switch over from W.D.V. method to S.L.M for first four years? Also, state how you will treat the same in Accounts.

AS 7 "Construction Contracts"

19. (a) On 1st December, 2011, BC Co. Ltd. undertook a contract to construct a building of ₹ 21.25 lakhs. On 31st March, 2012, the company found that it had already spent ₹ 16,24,750 on the construction. Prudent estimate of additional cost for completion was ₹ 8,00,250. What amount should be charged to revenue in the final accounts for the year ended 31st, March, 2012?

AS-9 "Revenue Recognition"

(b) Perfect Ltd. manufactures machinery used in Power Plants. In response to the tenders issued by Power Plants, Perfect Ltd. quotes its price. As per terms of contract, full price of machinery is not released by the power plants, but 10% thereof is retained and paid after one year if there is satisfactory performance of the machinery supplied. From the past experience, it is observed that Perfect Ltd. normally performs satisfactorily and fulfills the expectations of the Power Plants. Perfect Ltd. accounts for only 90% of the invoice value as sales revenue and book the balance amount in the year of receipt to the extent of actual receipts only. Comment on the treatment done by the company.

AS-10 "Accounting for Fixed Assets"

20. (a) A Company is in the process of setting up a production line for manufacturing a new product. Based on trial runs conducted by the company, it was noticed that the production lines output was not of the desired quality. However, company has taken a decision to manufacture and sell the sub-standard product over the next one year due to the huge investment involved.

In the background of the relevant accounting standard, advise the company on the cut-off date for capitalization of the project cost.

AS-13 "Accounting for Investments"

(b) Saksham Ltd. wants to re-classify its Investment in accordance with AS 13. Decide on the treatment to be given in each of the following cases:

(i) A portion of Current Investments purchased for ₹ 20 lakhs to be reclassified as long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.

(ii) Another portion of Current Investments purchased for ₹ 15 lakhs has to be re classified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was ₹ 6.5 lakhs.

SUGGESTED ANSWERS / HINTS

1. (a) Omega Limited

Balance Sheet as at 31st March, 2012

Particulars	*Note No.*	*(₹ in 000)*
Equity and Liabilities		
1. Shareholders' funds		
a Share capital	1	300

	b	Reserves and Surplus	2	500
2.	Non-Current liabilities			
	a	Long term borrowings	3	200
3.	Current liabilities			
	a	Trade Payables		52
	b	Short-term provisions	4	30
		Total		1082
Assets				
1.	Non-current assets			
	a	Fixed assets		
		i Tangible assets	5	880
2.	Current assets			
	a	Inventories		86
	b	Trade receivables		96
	c	Cash and cash equivalents		20
		Total		1082

Omega Limited

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

	Particulars	*Notes*	*(₹ in 000)*
I.	Revenue from operations		700
II.	Other Income	6	2
III	Total Revenue		702
IV	Expenses:		
	Purchases		320
	Finance costs	7	20
	Depreciation (10% of 760)		76
	Other expenses	8	120
	Total Expenses		536
V.	Profit (Loss) for the period (III – IV)		166

Notes to accounts

			(₹ in 000)
1.	Share Capital		

	Equity share capital			
	Authorized			
	40,000 shares of ₹ 10 each			400
	Issued & subscribed & called up			
	30,000 shares of ₹ 10 each			300
	Total			300
2.	Reserves and Surplus			
	Securities Premium Account			40
	Revaluation reserve			140
	General reserve			130
	Profit & loss Balance			
	Opening balance	72		
	Profit for the period	166	238	
	Less: Appropriations			
	Interim Dividend		(18)	
	Proposed Final Dividend		(30)	190
				500
3.	Long term borrowing			
	10% Debentures			200
4.	Short term provision			
	Proposed Final Dividend			30
5.	Tangible assets			
	Land			
	Opening balance		220	
	Add: Revaluation adjustment		140	
	Closing balance			360
	Plant and Machinery			
	Opening balance		770	
	Less: Disposed off		(10)	
			760	
	Less: Depreciation (172-8+76)		(240)	
	Closing balance			520
	Total			880

6.	Other Income		
	Profit on sale of machinery:		
	Sale value of machinery	4	
	Less: Book value of machinery (10-8)	(2)	2
7.	Finance costs		
	Debenture interest		20
8.	Other expenses:		
	Factory expenses	60	
	Selling expenses	30	
	Administrative expenses	30	120

2. ABC Limited

Cash Flow Statement

for the year ended 31st March, 2012

	(₹ in lakhs)	*(₹ in lakhs)*
Cash flows from operating activities		
Net profit before taxation (50,000+10,000)	60,000	
Adjustments for :		
Depreciation	40,000	
Loss on sale of assets (net)	80	
Amortization of capital grant	(12)	
Profit on sale of investments	(200)	
Interest income on investments	(5,012)	
Interest expenses	20,000	
Operating profit before working capital changes	1,14,856	
Less: Increase in working capital (excluding cash and bank balance)	(1,12,150)	
Cash generated from operations	2,706	
Income taxes paid	(8,496)	
Net cash used in operating activities		(5,790)
Cash flows from investing activities		
Sale of assets (370 – 80)	290	
Sale of investments (55,530 + 200)	55,730	
Interest income on investments	5,012	

Purchase of fixed assets	(1,06,300)	
Net cash used in investing activities		(45,268)
Cash flows from financing activities		
Proceeds from calls in arrear	4	
Receipts of grant for capital projects	24	
Proceeds from long-term borrowings	51,960	
Proceed from short-term borrowings	41,150	
Interest paid	(21,040)	
Dividend (including dividend tax) paid	(17,070)	
Net cash generated from financing activities		55,028
Net increase in cash and cash equivalents		3,970
Cash and cash equivalents at the beginning of the period		10,006
Cash and cash equivalents at the end of the period		13,976

3. **Calculation of Profits as per section 349, for the Purpose of Managerial Remuneration**

Particulars	₹	₹
Net Profit		4,00,000
Add: Depreciation (to be treated separately)	1,00,000	
Tax provision	6,20,000	
Bonus (to be treated separately)	88,000	
Managing Director's remuneration	60,000	8,68,000
		12,68,000
Less: Depreciation allowable under Schedule XIV to the Companies Act	70,000	
Bonus liability as per Payment of Bonus Act, 1965	40,000	
Capital profit on sale of fixed assets (Refer W.N.)	13,000	(1,23,000)
Profit under section 349		11,45,000

Calculation of Managerial Remuneration

Remuneration payable to Managing Director @ 5% of ₹ 11,45,000 = ₹ 57,250.

Working Note:

Calculation of Capital Profit on Sale of Fixed Assets

Particulars	₹
Sale Price (W.D.V. + Profit on sale, i.e., ₹ 22,000 + ₹ 31,000)	53,000
Less: Cost price (original)	(40,000)
Capital Profit	13,000

4. (i) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 “Reserves created by Revaluation of fixed assets cannot be capitalized for the purpose of issuing bonus shares.”

(ii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009, ‘Capital Reserve’ realized in cash can be utilized for issue of fully paid Bonus shares. Therefore, ₹ 3,20,000 being profit on sale of plant, is a capital profit which has been realized in cash and can be utilized for issue of the bonus shares. For remaining balance in capital reserve account amounting ₹ 2,80,000 (6,00,000 – 3,2,0000) has been created due to revaluation of land. Since, the same has not been realised in cash it cannot be capitalized.

(iii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, Securities Premium collected in cash only can be utilized for Bonus issue, therefore only ₹ 1,60,000 (i.e. ₹2,00,000 – ₹ 40,000) can be utilized for Bonus issue.

(iv) Number of equity shares to be issued as bonus shares

1,80,000 (7,20,000/4) shares will be issued as bonus shares.

5. Ramesh Pvt. Ltd.

Draft Trading and Profit & Loss Account for the year ending 31st March, 2012

	₹	₹		₹	₹
To Opening Stock		8,600	By Sales		55,600
To Purchases		37,800	By Closing Stock		8,800
To Gross Profit c/d					
April – June	4,800				
July – March	13,200	18,000			
		64,400			64,400
	April-June ₹	*July-March* ₹		*April-June* ₹	*July-March* ₹
To Office Salaries & Expenses	1,050	3,150	By Gross Profit b/d	4,800	13,200

	(Time basis)					
To	Rent & Taxes (Time basis)	600	1,800	(sales basis)		
To	Carriage outwards (Sales basis)	176	484			
To	Travellers' Commission (Sales basis)	400	1,100			
To	Preliminary Expenses		1,040			
To	Directors' fees		3,600			
To	Pre-incorporation profit transferred to capital reserve	2,574*				
To	Net profit	____	2,026*		____	____
		4,800	13,200		4,800	13,200

Working Notes:

(1) Ratio for apportioning gross profit:

Suppose, sales for the months of April 2011, February, 2012 and March 2012 is 2 and for other months 1 per month. Then,

Sales for April, May & June (2+1+1) = 4

Sales for July 2011 to March 2012 [(1x7) + (2x2)] = 11

This gives the ratio of 4:11; this ratio has been used for apportioning gross profit and expenses related to sales.

(2) Rent and Rates have been divided on time basis which is 3:9 or 1 : 3.

6. (i) In the books of Maitri Ltd.

Journal Entries

				Dr.	*Cr.*
	2012			₹	₹
1	March 31	Equity Share Capital A/c (₹ 10)	Dr.	3,00,000	
		To Capital Reduction A/c			90,000

* Subject to depreciation on fixed assets

		To Equity Share Capital A/c (₹ 7)			2,10,000
		(Being reduction of equity shares of ₹ 10 each to shares of ₹ 7 each as per Reconstruction Scheme dated...)			
2.		8% Cum. Preference Share Capital A/c (₹ 10)	Dr.	4,00,000	
		To Capital Reduction A/c			2,00,000
		To Preference Share Capital A/c (₹ 5)			2,00,000
		(Being reduction of preference shares of ₹ 10 each to shares of ₹ 5 each as per reconstruction scheme)			
3.		Equity Share Capital A/c (30,000 x ₹ 7)	Dr.	2,10,000	
		Preference Share Capital A/c (40,000 x ₹ 5)	Dr.	2,00,000	
		To Equity Share Capital A/c (21,000 x ₹ 10)			2,10,000
		To Preference Share Capital A/c (20,000 x ₹ 10)			2,00,000
		(Being post reduction, both classes of shares reconsolidated into ₹ 10 each)			
4.		Cash Account	Dr.	64,000	
		To Trade Investments			64,000
		(Being trade investments liquidated in the open market)			
5.		Capital Reduction Account	Dr.	32,000	
		To Equity Share Capital Account			32,000
		(Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of ₹ 10 each)			
6.		Capital Reduction Account	Dr.	10,000	
		To Cash Account			10,000
		(Being expenses of reconstruction scheme paid in cash)			
7.		9% Debentures Account	Dr.	1,20,000	
		Accrued Interest Account	Dr.	5,400	
		To Debenture holders Account			1,25,400
		(Being amount due to debenture holders)			
8.		Debenture holders Account	Dr.	1,25,400	
		Cash Account (2,10,000 – 1,25,400)	Dr.	84,600	
		To Freehold Land			1,20,000

		To Capital Reduction Account (2,10,000 – 1,20,000)			90,000
		(Being Debenture holders took over freehold land at ₹ 2,10,000 and settled the balance)			
9.		Capital Reduction Account	Dr.	54,000	
		To Cash Account			54,000
		(Being contingent liability of ₹ 54,000 paid)			
10.		Cash Account	Dr.	12,500	
		To Capital Reduction Account			12,500
		(Being pending insurance claim received)			
11.		Capital Reduction Account	Dr.	1,68,100	
		To Trademarks and Patents			1,10,000
		To Goodwill			36,100
		To Raw materials & Packing materials			10,000
		To Trade receivables			12,000
		(Being intangible assets written off along with raw materials and packing materials worth ₹10,000 and 10% of trade receivables)			
12.		Cash Account	Dr.	1,26,000	
		To Equity Share Capital Account			1,26,000
		(Being 12,600 shares issued to existing shareholders)			
13.		Bank Overdraft Account	Dr.	2,23,100	
		To Cash Account			2,23,100
		(Being cash balance utilized to pay off bank overdraft)			
14.		Capital Reduction Account	Dr.	1,28,400	
		To Capital reserve Account			1,28,400
		(Being balance of capital reduction account transferred to capital reserve account)			

(ii) Capital Reduction Account

Particulars		₹	*Particulars*		₹
To	Equity share capital	32,000	By	Preference share capital	2,00,000
To	Cash (contingent liability settled)	54,000	By	Equity share capital	90,000

To	Trademarks and Patents	1,10,000	By	Freehold land	90,000
To	Goodwill	36,100	By	Cash (insurance claim)	12,500
To	Raw material and Packing materials	10,000			
To	Trade receivables	12,000			
To	Cash account	10,000			
To	Capital reserve account	1,28,400			
		3,92,500			3,92,500

(iii) Cash Account

Particulars		₹	Particulars		₹
To	Investment	64,000	By	Capital reduction (Contingent liability)	54,000
To	9% Debenture holders (2,10,000-1,25,400)	84,600	By	Expenses	10,000
To	Capital reduction (insurance claim)	12,500	By	Temporary bank overdraft - From available cash (64,000+84,600+12,500 -54,000-10,000) 97,100	
To	Equity share capital 12,600 shares @ ₹10 each	1,26,000		- From proceeds of equity share capital (2,23,100–97,100) 1,26,000	2,23,100
		2,87,100			2,87,100

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft = ₹ 2,23,100 – ₹ 97,100 = ₹ 1,26,000

7. Balance Sheet of C Ltd.
as at 1st April, 2012

Particulars	*Note No.*	*(₹ in lakhs)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	1,200
(b) Reserves and Surplus	2	1,750
(2) **Non-Current Liabilities**		
Long-term borrowings	3	60

(3) Current Liabilities		
Trade payables	4	610
Total		3,620
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
i. Tangible assets	5	1,550
ii. Intangible assets	6	20
(b) Non-current investments	7	200
(c) Other non-current assets	8	100
(2) Current assets		
(a) Inventories		600
(b) Trade receivables	9	650
(c) Cash and cash equivalents		500
Total		3,620

Notes to Accounts

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Equity share capital		
	70 Lakhs Equity shares of ₹ 10 each	700	
	5 Lakhs Preference shares of ₹ 100 each	500	
	(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		1,200
2.	Reserves and surplus		
	Securities Premium Account		
	On equity shares - 70 lakh shares x ₹ 20 = 1,400		
	On preference shares - 5 lakh shares x ₹ 50 = 250	1,650	
	Investment Allowance Reserve	100	1,750
3.	Long-term borrowings		
	15% Debentures		60
4.	Trade payables		
	Sundry creditors	390	

	Bills Payables	220	610
5.	Tangible assets		
	Land and Building	950	
	Plant and Machinery	600	1,550
6.	Intangible assets		
	Goodwill [W.N. 2] (110-90)		20
7.	Non-current Investments		
	Investments		200
8.	Other non-current assets		
	Amalgamation Adjustment Account		100
9.	Trade receivables		
	Sundry Debtors	550	
	Bills receivable	<u>100</u>	650

Working Notes:

		(₹ in lakhs)	
		A Ltd.	*B Ltd.*
(1)	Computation of Purchase consideration		
	(a) Preference shareholders:		
	$\left(\frac{3,00,00,000}{100}\right)$ i.e. 3,00,000 shares × ₹ 150 each	450	
	$\left(\frac{2,00,00,000}{100}\right)$ i.e. 2,00,000 shares × ₹ 150 each		300
	(b) Equity shareholders:		
	$\left(\frac{8,00,00,000 \times 5}{100}\right)$ i.e. 40,00,000 shares × ₹ 30 each	1,200	
	$\left(\frac{7,50,00,000 \times 4}{100}\right)$ i.e. 30,00,000 shares × ₹ 30 each		900
	Amount of Purchase Consideration	<u>1,650</u>	<u>1,200</u>
(2)	Net Assets Taken Over		
	Assets taken over:		
	Land and Building	550	400
	Plant and Machinery	350	250
	Investments	150	50
	Inventories	350	250

	Sundry Debtors		250		300
	Bills receivable		50		50
	Cash and bank		300		200
			2,000		1,500
	Less: Liabilities taken over:				
	Debentures	40		20	
	Sundry Creditors	270		120	
	Bills payable	150		70	
			(460)		(210)
	Net assets taken over		1,540		1,290
	Purchase consideration		1,650		1,200
	Goodwill		110		-
	Capital reserve				90

8. (a) Calculation of Average Due Date taking base date as April 1, 2012

Due dates	*Amount* ₹	*No. of days from April 1, 2012*	*Products* ₹
2012			
April 1	2,000	0	0
April 10	5,000	9	45,000
May 16	10,000	45	4,50,000
June 9	3,000	69	2,07,000
	20,000		7,02,000

Average due date = Base date +Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

Average due date = 1st April + $\frac{7,02,000}{20,000}$ =1st April + 35 days (approx.) = 6th May, 2012

Interest payable on 30th June, 2012

Interest can be calculated on ₹ 20,000 from 7th May, 2012 to 30th June 2012. i.e. for 55 days @ 15% per annum.

Interest=20,000 x 15/100 x 55/366* = ₹ 451 (approx.)

* Year 2012 is a leap year.

8. (b)

In the books of Mr. Kumar

Neena in Account Current with Mr. Kumar

(Interest to 31st March, 2012 @ 12% p.a.)

(By means of product)

Date 2012	Particulars	L.F.	Due Date	Amount ₹	Days	Product	Date 2012	Particulars	L.F.	Due Date	Amount ₹	Days	Product
Jan 12	To Sales A/c		Feb. 1	30,000	59	17,70,000	Jan. 1	By Balance b/d		Jan. 1	3,500	91	3,18,500
Jan 31	To Sales A/c		Feb. 15	27,500	45	12,37,500	Feb. 15	By Cash A/c		Feb. 15	40,000	45	18,00,000
Mar. 31	To Interest			132			Feb. 20	By Cash A/c		Feb. 20	7,500	40	3,00,000
	$\frac{4,03,000}{366} \times \frac{12}{100}$						Mar. 10	By Sales returns		Mar. 10	7,000	21	1,47,000
							Mar. 25	By Cash A/c		Mar. 25	6,500	6	39,000
Mar. 31	To Balance c/d			6,868			Mar. 31	By Balance of products					4,03,000
				64,500		30,07,500					64,500		30,07,500

9. **General Ledger Adjustment Account in Debtors' Ledger**

			₹				₹
1.4.2012	To Balance b/d		480	1.4.2012	By Balance b/d		94,400
	To Debtor's ledger adjustment account:				By Debtors ledger adjustment account:		
	Bank	1,16,400			Sales (on credit)	2,24,000	
	Discount	1,600			Bills receivable dishonoured	3,000	
	Returns	5,200			Endorsed bills receivable dishonoured	2,000	2,29,000
	Bills receivable	40,200					
	Bad debts Written off (4,400 + 600)	5,000	1,68,400	31.3.2013	By Balance c/d		760
	To Debtors ledger adjustment account:						
	Transfer from debtors ledger to creditor's ledger	2,200					
	Transfer from creditor's ledger to debtor's ledger	3,800	6,000				
31.3.2013	To Balance c/d (balancing figure)		1,49,280				
			3,24,160				3,24,160

Notes: No entries will be made for the following transactions in respect to debtors as they do not affect general ledger adjustment accounts in Debtor's Ledger:

(i) Cash sales

(ii) Bills receivable discounted

(iii) Bad debts recovered and Provision for doubtful debts.

10. Income and Expenditure Account of Lion Club

for the year ended 31st March, 2012

Expenditure	₹	*Income*	₹
To Salaries	1,28,000	By Subscription	1,94,750
To Printing and stationary	70,000	By Entrance donation	90,000
To Postage	40,000	By Interest	60,000
To Telephone and telex	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations	92,000
To Glass and table linen	12,000	By Excess of expenditure	
To Crockery and cutlery	14,000	over income transferred	
To Garden upkeep	8,000	to capital fund	30,250
To Membership fees	4,000		
To Insurance	6,000		
To Electricity charges	43,000		
To Loss on sale of assets	2,000		
To Depreciation	49,000		
	4,76,000		4,76,000

Balance Sheet of Lion Club as on 31st March, 2012

Liabilities	₹	*Assets*	₹
Capital fund	10,89,600	Fixed assets	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors	92,000	Investments	5,00,000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued	2,000
Outstanding expenses	23,000	Bank	2,24,600
		Cash	8,000
	13,92,600		13,92,600

Working Notes:

1. Opening Balance Sheet

Balance Sheet of Lion Club as on 1st April, 2011

Liabilities	₹	*Assets*	₹
Sundry creditors	1,12,000	Fixed assets	5,00,000

Subscription received in advance	15,000	Stock	3,80,000
		Investments	5,00,000
Entrance donation received in advance	1,00,000	Subscription outstanding	12,000
		Prepaid expenses	1,000
Gratuity fund	1,50,000	Cash	10,000
Capital fund (balance figure)	10,29,850	Bank	3,850
	14,06,850		14,06,850

2. Subscription

	₹
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2012	7,000
	2,09,750
Add: Received in advance as on 1.4.2011	15,000
	2,24,750
Less: Outstanding subscription as on 1.4.2011	(12,000)
	2,12,750
Less: Received in advance as on 31.3.2012	(18,000)
	1,94,750

3. Entrance donation

	₹
Entrance donation received during the year	1,00,000
Add: Received in advance as on 1.4.2011	1,00,000
	2,00,000
Less: Entrance donation in respect of ineligible member	(20,000)
	1,80,000
Less: 50% capitalized	(90,000)
Taken to income and expenditure account	90,000

4. Loss on sale of asset

	₹
Cost of asset sold	10,000
Less: Sale proceeds	(8,000)
Loss on sale of asset	2,000

5. Depreciation

	₹
Fixed asset as per trial balance	5,00,000
Less: Cost of asset sold	(10,000)
	4,90,000
Depreciation on ₹ 4,90,000 @ 10%	49,000

6. Salaries

	₹
Salary paid during the year	1,20,000
Add: Outstanding as on 31.3.2012	8,000
	1,28,000

7. Electricity charges

	₹
Electricity charges paid during the year	28,000
Add: Outstanding as on 31.3.2012	15,000
	43,000

8. Interest

	₹
Interest on 12% Government security investment (₹ 5,00,000 @ 12 % p.a.)	60,000
Less: Interest received during the year	(58,000)
Interest accrued	2,000
Interest credited to Income and Expenditure Account	60,000

9. Profit from operations:

	₹
Cost of goods sold:	
Opening stock	3,80,000
Add: Purchases	15,00,000
	18,80,000
Less: Closing stock	(2,10,000)
Cost of goods sold (A)	16,70,000
Receipts from operations:	
Receipts from coffee room	10,70,000
Receipts from wines and spirits	5,10,000

Receipts from swimming pool	80,000
Receipts from tennis court	1,02,000
Total receipts (B)	17,62,000
Profits from operations (B-A)	92,000

10. Insurance

	₹
Insurance paid during the year	5,000
Add: Prepaid insurance as on 1.4.2011	1,000
	6,000

11. Sundry creditors

	₹
Opening balance as on 1.4.2011	1,12,000
Add: Purchases made during the year	15,00,000
	16,12,000
Less: Payments made during the year	(15,20,000)
Closing balance as on 31.3.2012	92,000

12. Outstanding expenses

	₹
Outstanding salaries	8,000
Outstanding electricity charges	15,000
Outstanding expenses	23,000

13. Fixed assets

	₹
Fixed assets as on 1.4.2011	5,00,000
Less: Cost of assets sold	(10,000)
	4,90,000
Less: Depreciation	(49,000)
Fixed assets as on 31.3.2012	4,41,000

14. Capital fund

	₹
Capital fund as on 1.4.2011	10,29,850
Add: Entrance donation capitalised	90,000

	11,19,850
Less: Excess of expenditure over income	(30,250)
Balance as on 31.3.2012	10,89,600

11. Trading and Profit and Loss Account of Ms. Rashmi

for the year ended 31st December, 2012

		₹		₹
To Opening Stock		16,000	By Sales	1,46,100
To Purchases	91,200		By Closing stock	14,000
Less : For advertising	(1,800)	89,400		
To Freight inwards		6,000		
To Gross profit c/d		48,700		
		1,60,100		1,60,100
To Sundry expenses		28,400	By Gross profit b/d	48,700
To Advertisement		1,800	By Interest on investment	4
To Discount allowed –			(200 x 4/100 x ½)	
Debtors	3,000		By Discount received	1,600
Bills Receivable	250	3,250	By Miscellaneous income	1,000
To Depreciation on furniture		1,300		
To Provision for doubtful debts		972		
To Net Profit		15,582		
		51,304		51,304

Balance Sheet as on 31st December, 2012

Liabilities	*Amount*		*Assets*		*Amount*
	₹	₹		₹	₹
Capital as on 1.1.2012	37,600		Furniture (w.d.v.)	12,000	
Less: Drawings	(15,808)		Additions during the year	2,000	
	21,792		*Less :* Depreciation	(1,300)	12,700
Add : Net Profit	15,582	37,374	Investment		192
Sundry creditors		30,000	Interest accrued		4

Outstanding expenses		3,600	Closing Stock		14,000
			Sundry debtors	38,900	
			Less : Provision for doubtful debts	972	37,928
			Bills receivable		3,500
			Cash in hand and at bank		1,250
			Prepaid expenses		1,400
		70,974			70,974

Working Notes :

(1) Capital on 1st January, 2012

Balance Sheet as on 1st January, 2012

Liabilities	₹	*Assets*	₹
Capital (Bal.fig.)	37,600	Furniture (w.d.v.)	12,000
Creditors	22,000	Stock at cost	16,000
Outstanding expenses	4,000	Sundry debtors	32,000
		Cash in hand and at bank	2,400
		Prepaid expenses	1,200
	63,600		63,600

(2) Purchases made during the year

Sundry Creditors Account

	₹		₹
To Cash and bank A/c	78,400	By Balance b/d	22,000
To Discount received A/c	1,600	By Sundry debtors A/c	800
To Bills Receivable A/c	4,000	By Purchases A/c	91,200
To Balance c/d	30,000	(Balancing figure)	
	1,14,000		1,14,000

(3) Sales made during the year

		₹
Opening stock		16,000
Purchases	91,200	

Less : For advertising	(1,800)	89,400
Freight inwards		6,000
		1,11,400
Less : Closing stock		(14,000)
Cost of goods sold		97,400
Add : Gross profit (@ 50% on cost)		48,700
		1,46,100

(4) Debtors on 31st December, 2012

Sundry Debtors Account

	₹		₹
To Balance b/d	32,000	By Cash and bank A/c	1,17,000
To Sales A/c	1,46,100	By Discount allowed A/c	3,000
To Sundry creditors A/c		By Bills receivable A/c	20,000
(bill dishonoured)	800	By Balance c/d (Bal.fig.)	38,900
	1,78,900		1,78,900

(5) Additional drawings by Ms. Rashmi

Cash and Bank Account

	₹		₹
To Balance b/d	2,400	By Freight inwards A/c	6,000
To Sundry debtors A/c	1,17,000	By Furniture A/c	2,000
To Bills Receivable A/c	12,250	By Investment A/c	192
To Miscellaneous income A/c	1,000	By Expenses A/c	29,000
		By Creditors A/c	78,400
		By Drawings A/c	15,808
		[₹ 14,000 + ₹ 1,808	
		(Additional drawings)]	
		By Balance c/d	1,250
	1,32,650		1,32,650

(6) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	₹		₹
To Prepaid expenses A/c (on 1.1.2012)	1,200	By Outstanding expenses A/c (on 1.1.2012)	4,000
To Bank A/c	29,000	By Profit and Loss A/c (Balancing figure)	28,400
To Outstanding expenses A/c (on 31.12.2012)	3,600		
		By Prepaid expenses A/c	1,400
	33,800		33,800

(7) Bills Receivable on 31st December, 2012

Bills Receivable Account

	₹		₹
To Debtors A/c	20,000	By Creditors A/c	4,000
		By Bank A/c	12,250
		By Discount on bills receivable A/c	250
		By Balance c/d (Balancing figure)	3,500
	20,000		20,000

12. In the books of Mohan Pvt. Ltd.

Hire Purchase Trading Account

Dr.				*Cr.*
		₹		₹
To Opening Balance:			By Bank	40,00,000
H.P. Stock	1,20,000		By Stock reserve	20,000
H.P. Debtors	30,000	1,50,000	By Trucks sent on H.P.	7,04,000
To Trucks sent on H.P.			By Closing balance	
Purchased during the year	40,00,000		H.P. Stock	6,00,000
Less: Other sales	4,00,000		H.P. Debtors	50,000
	36,00,000			
Less: Closing Stock	80,000			
	35,20,000			
Add: Loading	7,04,000	42,24,000		
To Body Building Charges		2,00,000		
To Bank (Interest paid)		40,000		
To Stock reserve (20% on cost)		1,00,000		
To Profit and Loss A/c		6,60,000		
		53,74,000		53,74,000

Working Notes:

Value of closing H.P. Stock:

(1)	Cost of trucks in respect of Hire Purchase agreement subsisting as on 31.3.2012	20,00,000
(2)	H.P. price in respect thereof	24,00,000
(3)	Instalments not due (24 lakhs less 18 lakhs)	6,00,000

13. In the books of Nidhi

8% Bonds Account

[Interest Payable: 1st November & 1st May]

Date	*Particulars*	*Nominal Value (₹)*	*Interest (₹)*	*Cost (₹)*	*Date*	*Particulars*	*Nominal Value (₹)*	*Interest (₹)*	*Cost (₹)*
1.4.12	To Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	1.5.12	By Bank A/c	–	48,000	–
31.3.13	To Profit & Loss A/c (W.N 6)		84,000	11,500	1.10.12	By Bank A/c (W.N 2)	3,00,000	10,000	2,43,000
					1.11.12	By Bank A/c (W.N 3)	–	36,000	–
					31.3.13	By Balance c/d (W.N.4)	9,00,000	30,000	6,94,500
		12,00,000	1,24,000	9,37,500			12,00,000	1,24,000	9,37,500

Investment in Equity Shares of X Ltd. Account

Date	*Particulars*	*No.*	*Dividend (₹)*	*Cost (₹)*	*Date*	*Particulars*	*No.*	*Dividend (₹)*	*Cost (₹)*
12.4.12	To Bank A/c	1,00,000		40,00,000	15.5.12	By Bank A/c	1,25,000		25,00,000
15.5.12	To Bonus Issue	1,50,000			1.12.12	By Bank A/c		2,25,000	
31.3.13	To Profit & Loss A/c (W.N 5)		2,25,000	5,00,000	31.3.13	By Balance c/d	1,25,000		20,00,000
		2,50,000	2,25,000	45,00,000			2,50,000	2,25,000	45,00,000

Working Notes:

1. On 1st April, 2012, 12,000, 8% bonds were purchased @ ₹ 80.50 cum- interest. Total amount paid 12,000 bonds x ₹ 80.50 = 9,66,000 which includes accured interest for 5 months. i.e. 1st November, 2011 to 31st March, 2012. Accrued interest will be ₹ 12,00,000 x 8/100 x 5/12 = ₹ 40,000. Therefore, cost of investment purchased = ₹ 9,66,000 – 40,000 = ₹ 9,26,000.

2. On 1st October, 2012, 3,000 bonds were sold @ ₹ 81 ex-interest. Total amount received = 3,000 x 81 + accrued interest for 5 months = ₹ 2,43,000 + ₹10,000 (3,00,000 x 8/100 x5/12)
3. On 1st November, 2012, interest will be received for 9,000 bonds @ 8% for 6 months, i.e., ₹ 9,00,000 x 8/100x1/2 = ₹ 36,000.
4. Cost of bonds on 31.3.2012 will be ₹ 9,26,000/12,000 x 9,000 = ₹ 6,94,500.

   Interest accrued on bonds on 31.3.2012 = 9,00,000 x 8% x 5/12 = ₹ 30,000
5. Profit on sale of bonus shares:

   Cost per share after bonus = ₹ 40,00,000/2,50,000 = ₹ 16

   Profit per share sold (₹ 20 – ₹ 16) = ₹ 4.

   Therefore, total profit on sale of 1,25,000 shares = ₹ 4 x 1,25,000 = ₹ 5,00,000.
6. Profit on sale of bonds

		₹
Sale value	=	2,43,000
Cost of ₹ 3,00,000 8% bonds = 9,26,000/12,00,000 x 3,00,000	=	2,31,500
Profit	=	11,500

14. 1. **Short sales**

Period	Adjusted Standard Turnover	Actual Turnover	Shortage
	₹	₹	₹
January	1,00,000	-	1,00,000
Feb. to October	9,60,000	8,00,000	1,60,000
	10,60,000	8,00,000	2,60,000

2. **Gross profit ratio for the purpose of insurance claim on loss of profit**

   Gross profit - Insured Standing Charges - Uninsured standing charges = Net profit

   Or

   Gross profit - Uninsured standing charges = Net profit +Insured Standing Charges

   = 4,06,400 – 20,000 = 3,86,400

   $$\frac{₹\ 3,86,400}{₹\ 12,70,000} \times 100 = 30.425\%$$

3. **Amount allowable in respect of additional expenses**

   Least of the following:

   (i) Actual expenses = 1,80,000

(ii) Gross profit on sales during 10 months period = 8,00,000 x 30.425%

= 2,43,400

(iii) $\frac{\text{Gross Profit on Annual Adjusted Turnover}}{\text{Gross Profit on Annual Adjusted Turnover} + \text{uninsured standing charges}}$ x Additional expenses

$$\frac{3,86,400}{3,86,400 + 20,000} \text{ x } 1,80,000 = 1,71,142 \text{ (approx.)}$$

Least i.e. = ₹ 1,71,142 is admissible.

4. Amount of Claim

	₹
Gross profit on short sales = ₹ 2,60,000 x $\frac{30.425}{100}$	79,105
Add: Amount allowable in respect of additional expense	1,71,142
	2,50,247
Less: Savings in Insured Standing Charges	(28,000)
	2,22,247

On the amount of final claim, the average clause will not apply since the amount of the policy ₹ 4,00,000 is higher than gross profit on annual adjusted turnover ₹ 3,86,400.

Therefore, insurance claim will be ₹ 2,22,247.

15. (a) Trading and Profit and Loss A/c

for the year ended 30th September, 2012

		₹	₹
Sales			96,000
Less:	Cost of goods sold:		
	Opening Stock	12,400	
	Purchase	62,000	
		74,400	
	Less: Closing stock	(14,200)	(60,200)
Less:	Wages		(14,600)
Gross Profit			21,200

	Half year to 31st March 2012		*Half year to 30th September 2012*	
	₹	₹	₹	₹
Gross profit allocated on time basis		10,600		10,600
Less: Expenses				
Salaries (W.N.1)	3,450		2,250	

Trade expenses (W.N.2)	765		1,015	
Rent and rates (W.N.3)	500		500	
Bad debts	600		-	
Provision for doubtful debts	-		230	
Depreciation: (W.N.4)				
Plant and machinery	700		700	
Motor vehicles	775		600	
Interest on loan	-	(6,790)	540	(5,835)
		3,810		4,765
Appropriation of profits:				
Interest on Capital:				
Glad	240			
Happy	180	420	84	
Joy			96	180
Remaining profits				
Glad	2,260			
Happy	1,130	3,390	2,751	
Joy			1,834	4,585
		3,810		4,765

(b) Partners' Capital Accounts

	Glad	Happy	Joy		Glad	Happy	Joy
	₹	₹	₹		₹	₹	₹
To Glad (goodwill)		3,200	4,800	By Balance b/d	8,000	6,000	
To Glad's Loan A/c	16,000			By Cash			3,000
To Balance c/d		2,800	3,200	By Happy (goodwill)	3,200		
				By Joy (goodwill)	4,800		
				By Cash			5,000
	16,000	6,000	8,000		16,000	6,000	8,000

Partners' Current Accounts

	Glad	Happy	Joy		Glad	Happy	Joy
	₹	₹	₹		₹	₹	₹
To Car taken over	600	-	-	By Balance b/d	2,400	1,600	
To Drawings	1,800	2,400	900	By Interest on	240	264	96

				capital			
To Transfer to loan account	2,500			By Profit	2,260	3,881	1,834
To Balance c/d		3,345	1,030				
	4,900	5,745	1,930		4,900	5,745	1,930

(c) Balance Sheet as at 30th September 2012

Assets	*Cost*	*Depreciation*	*Net*
	₹	₹	₹
Fixed assets:			
Plant and machinery	14,000	4,200	9,800
Motor vehicles	4,800	3,975	825
	18,800	8,175	10,625
Current assets:			
Stock		14,200	
Debtors		4,370	
Prepaid Rent		400	
Balance at bank		1,200	
		20,170	
Less: Current liabilities			
Outstanding Trade expenses		(180)	
Creditors		(6,200)	
Net current assets			13,790
			24,415
Financed by	*Happy* ₹	*Joy* ₹	*Total* ₹
Capital accounts	2,800	3,200	6,000
Current accounts	3,345	1,030	4,375
Loan – Glad			14,040
			24,415

Working Notes

		₹	₹
1.	**Salaries**		
	Total as per trial balance		10,800
	Less: Partners' Drawings - Glad	1,800	
	Happy	2,400	
	Joy	900	(5,100)
			5,700
	Allocation		
	Half-year to 31st March, 2012:		

	½ × (₹ 5,700 – ₹ 1,200) + Joy's salary of ₹ 1,200			3,450
	Half-year to 30 September 2012:			
	½ × (₹ 5,700 – ₹ 1,200)			2,250
				5,700
2.	**Trade Expenses**			
	Total as per trial balance			1,600
	Add: Accrual			180
				1,780
	Allocation			
	Half-year to 31 March 2012:			
	½ × (₹ 1,780 – ₹ 250)			765
	Half-year to 30th September 2012:			
	½ × (₹ 1,780 – ₹ 250) + professional charges of ₹ 250			1,015
				1,780
3.	**Rent and rates**			
	Total as per trial balance			1,400
	Less: Rent paid in advance			(400)
	Allocation: 50 : 50			1,000
4.	**Depreciation**			
	Plant and machinery:			
	10% per annum on ₹ 14,000 – ₹ 1,400; Allocated 50:50			
	Motor vehicles:			
	Half-year to 31st March 2012: 25% per annum on ₹ 6,200 = ₹ 775			
	Half-year to 30th September 2012: 25% per annum on ₹ 4,800 = ₹ 600			

5. **Glad's Loan Account**

	₹		₹
To Cash from Joy	5,000	By Transfer from capital account	16,000
To Balance c/d	14,040	By Transfer from current account	2,500
		By Profit and loss account:	
		Interest at 8% p.a. on ₹ 13,500 for six months	540
	19,040		19,040
		By Balance b/d	14,040

6.	**Car taken over by Glad**	₹	₹
	Cost		1,400
	Depreciation – upto 30th September 2011	625	
	upto 31st March, 2012	175	800
			600
7.	**Motor vehicles**	*Cost*	*Depreciation*
	Per trial balance	6,200	3,400
	Less: Vehicle sold	(1,400)	(800)
		4,800	2,600
	Charge for year to 30th September 2012		1,375
			3,975
8.	**Debtors**		
	Balance per trial balance		4,600
	Less: Provision for bad debts		(230)
			4,370

16. (a) Following are the advantages of outsourcing the accounting functions:

(i) Saving of Time: The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.

(ii) Expertise of the third party: The organisation is able to utilise the expertise of the third party in undertaking the accounting work.

(iii) Maintenance of data: Storage and maintenance of the data is in the hand of professional people.

(iv) Economical: The organisation is not bothered about people leaving the organisation in key accounting positions. The proposition often proves to be economically more sensible.

(b) There are several pre-packaged accounting softwares which are available in the market and are used extensively for small and medium sized organisations. These softwares are easy to use, relatively inexpensive and readily available. The installation of these softwares is very simple. An installation diskette or CD is provided with the software which can be used to install the software on a personal computer. A network version of this software is also generally available which needs to be installed on the server and work can be performed from the various workstations or nodes connected to the server. Along with the software an user manual is provided which guides the user on how to use the software. After installation of the software, the user should check the version of the software to ensure that they have been provided with the latest. The vendor normally provides regular updates to take care of the changes of law as well as add features to the existing software.

17. (a) AS 1 "Disclosure of Accounting Policies" recognises prudence as one of the major considerations governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

Further, 'accrual' is one of the fundamental accounting assumptions as per AS 1. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be placed in a disadvantageous position for non payment of interest in respect of claim for interest from the due date to date of repayment of loan.

From the aforesaid, it is apparent that the company should provide for the liability (since it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case. Non-provision of the interest from the due date to the date of repayment of loan amounts to violation of accrual basis of accounting.

(b) Calculation of value of closing inventory

	₹
Value of closing inventory (given)	9,56,700
Less: Adjustment to bring the stock of shirts at NRV (W.N 1)	(8,313)
Revised value of closing inventory as per AS 2	9,48,387

Working Notes:

1. Valuation of Shirts as per AS 2

	₹
Cost price (per shirt)	380
NRV per shirt :	
Sale price (per shirt) ₹ 750 × 50% = 375.00	
Less : Selling expenses (5% of ₹ 375) = (18.75)	
NRV (per shirt) 356.25	
As per AS 2, inventories are valued at cost or NRV whichever is less	356.25
Difference of cost and NRV	23.75

Therefore, value of inventory of shirts to be reduced by ₹ 8,313 (approx) (₹ 23.75 x 350 shirts)

18. (a) As per para 5 of AS 3 (Revised) "Cash Flow Statements",

Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

Thus, the classification will be done as:

Operating Activities: c, e,

Investing Activities: a, f,

Financing Activities: b, d.

(b) As per para 15 of AS 6 on 'Depreciation Accounting', when a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective re-computation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed.

In the given case, a surplus of ₹ 131.5 i.e. (287.50 – 156) on account of change in method of depreciation from WDV to SLM, will be credited to Statement of Profit and Loss. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed as per AS 5.

19. (a)

	₹
Cost of construction till date	16,24,750
Add: Estimated future cost	8,00,250
Total estimated cost of construction	24,25,000

Percentage of completion till date to total estimated cost of construction

$$= (16,24,750 / 24,25,000) \times 100 = 67\%$$

Proportion of total contract value recognised as revenue [as per AS 7 (Revised)] for the year ended 31st March, 2012 = Contract price x percentage of completion

= ₹ 21,25,000 x 67% = ₹ 14,23,750

Thus, ₹ 14,23,750 should be charged to revenue in the final accounts for the year ended 31st March, 2012.

(b) As per para 11 of AS 9, 'Revenue Recognition', revenue from sale of goods should be recognised when:

(i) the seller has transferred the property in the goods to the buyer for a consideration and the transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer and the seller retains no effective control of the goods transferred; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the present case, the goods, as well as the risks and rewards of ownership have been transferred to the power plants. Since, the invoice raised by Perfect Ltd. is for the full price (though it receives only 90% of the invoice value in the year of sale and 10% is kept as 'Retention Money'), Perfect Ltd. should recognise revenue at the full invoice price, i.e., 100% of the sales price. The company should make a separate provision for the balance 10% amount to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.

Therefore, the practice adopted of recognising only 90% of sales price as revenue by Perfect Ltd. is not in consonance with AS 9.

20. (a) As per para 9.3 of AS 10 'Accounting for Fixed Assets', expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, is usually capitalized as an indirect element of the construction cost. However, the expenditure incurred after the plant has begun commercial production *i.e.,* production intended for sale or captive consumption, is not capitalized and is treated as revenue expenditure even though the contract may stipulate that the plant will not be finally taken over until after the satisfactory completion of the guarantee period. In the present case, the company did not stop production even if the output was not of the desired quality, and continued the sub-standard production due to huge investment involved in the project. Capitalization should cease at the end of the trial run, since the cut-off date would be the date when the trial run was completed.

(b) As per para 24 of AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

(i) In the first case, the market value* of the investment is ₹ 25 lakhs, which is higher than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. ₹ 20 lakhs.

(ii) In the second case, the market value* of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e. ₹ 15 lakhs. Therefore, the transfer to long term investments should be made in the books at the market value i.e. ₹ 6.5 lakhs. The loss of ₹ 8.5 (15 – 6.5) lakhs should be charged to profit and loss account.

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* It is assumed that the market value has been determined in an arm's length transaction between knowledgeable and willing buyer and seller.