PAPER – 5 : ADVANCED ACCOUNTING

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

A. Applicable for May, 2013 examination

(i) Schedule VI revised by the Ministry of Corporate Affairs

The Ministry of Corporate Affairs (MCA) has revised Schedule VI to the Companies Act, 1956 on 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.

(ii) Amendment to para 46 of Accounting Standard 11 of the Companies (Accounting Standards) Rules, 2006

Ministry of Corporate Affairs vide its notification number G.S.R 913(E), dated 29th December, 2011, has amended the para 46 of AS 11 of the Companies (Accounting Standards) Amendment Rules, 2011. Through this notification, the MCA has extended the option (for the enterprises) to capitalize the exchange differences arising on reporting of long term foreign currency monetary items till 31st March, 2020 instead of 31st March, 2012.

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

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

"46A. (1) In respect of accounting periods commencing on or after the 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 and at the option of any other enterprise (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital assets, can be added to or deducted from the cost of the assets and shall be depreciated over the balance life of the assets, and in other cases, can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long term assets or liability, by recognition as income or expense in each of such periods, with the exception of exchange differences dealt with in accordance with the provisions of paragraph 15 of the said rules.

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

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

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

(iv) Clarification on Para 46A of notification number G.S.R. 914(E) dated 29.12.2011 on Accounting Standard 11 relating to "The effects of Changes in Foreign Exchange Rates"

The Ministry has received several representations from industry associations that Para 6 of AS 11 and Para 4(e) of AS 16 are posing problems in proper implementation of Para 46A of AS 11 inserted vide notification 914(E) dated 29.12.2011. In order to resolve the problems faced by industry, MCA had further clarified vide Circular No. 25/2012 dated 09.08.2012 that Para 6 of AS 11 and Para 4(e) of the AS 16 shall not apply to a company which is applying clause Para 46A of AS 11.

(Source: www.mca.gov.in)

(v) Section 24 of the Banking Regulation Act, 1949 Maintenance of Statutory Liquidity Ratio (SLR) - Local Area Banks

In exercise of the powers conferred by sub-section (2A) of Section 24 of Banking Regulation Act, 1949 (10 of 1949) as amended from time to time, RBI vide notification DBOD.No.Ret.BC.48 /12.02.001/2012-13 dated September 28, 2012 has decided that Statutory Liquidity Ratio for Local Area Banks be reduced from 25 per cent to 23 per cent of their Net Demand and Time Liabilities (NDTL) with effect from the fortnight beginning August 11, 2012.

(vi) Maintenance of Cash Reserve Ratio (CRR)

In exercise of the powers conferred under the sub-section (1) of Section 42 of the Reserve Bank of India Act, 1934, the Reserve Bank vide notification DBOD.No.Ret.BC.52/12.01.001/2012-13 dated October 30, 2012 notified that the average Cash Reserve Ratio (CRR) required to be maintained by every Scheduled

Commercial Bank shall be 4.25 per cent of its net demand and time liabilities from the fortnight beginning November 03, 2012.

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

Dissolution of a partnership firm

1. Kamal, Kishor, Mohan, and Sohan, were partners sharing profits and losses in the ratio of 3:3:2:2. Following was the balance sheet as on 31st March, 2012:

Liabilities	₹	₹	Assets	₹	₹
Trade creditors		23,250	Trade debtors	24,000	
Kamal's loan		15,000	*Less*: Provision for		
Capital accounts:			doubtful debts	(750)	23,250
Kamal	30,000		Inventories		15,000
Kishor	22,500	52,500	Cash at bank		3,000
			Furniture and fixture		6,000
			Trademarks		10,500
			Capital accounts:		
			Mohan	24,000	
			Sohan	9,000	33,000
		90,750			90,750

On 31st March, 2012, the partnership firm was dissolved.

The assets realised were as follows: trade debtors ₹ 16,500; inventories ₹ 12,000; furniture and fixture ₹ 1,500; trade mark ₹ 6,000; trade creditors were settled at ₹ 23,000. Also there was a joint life insurance policy for ₹ 45,000. This was surrendered for ₹ 4,500. Expenses of realisation amounted to ₹ 750. 'Mohan' was insolvent, but ₹ 5,550 were recovered from his estate.

You are required to show the following accounts in the book of partnership firm:

(a) Realisation account;

(b) Cash account;

(c) Partners' capital accounts.

Conversion of Partnership firm into a Company

2. Hari, Lal and Jay have been in partnership for a number of years, sharing profits/losses in the ratio of 2:2:1 as wholesale stationers trading under the name 'Hari Brothers'. They decide to convert their partnership into a limited company (with effect from 1st January, 2013) to be known as Hari Ltd.

Immediately prior to this conversion the balance sheet of partnership as at 31st December 2012 disclosed the following figures:

Balance Sheet
As on 31st December 2012

Liabilities	₹	₹	Assets	₹
Capital accounts			Fixed assets	
Hari	70,000		(at written down value)	
Lal	30,000		Land & Buildings	50,000
Jay	20,000	1,20,000	Plant & Machinery	30,000
Current accounts			Motor vehicles	20,000
Hari	7,000		Current Assets:	
Lal	5,000		Inventories	60,000
Jay	3,000	15,000	Debtors	25,000
Current liabilities			Axis Bank account	5,000
Creditors	25,000			
Dena Bank account	20,000	45,000		
Long-term liabilities				
Loan-Hari	3,000			
Loan-Gopi Ltd.	7,000	10,000		
		1,90,000		1,90,000

The terms of conversion are that Hari Ltd. is to take over the assets and liabilities of Hari Brothers as follows:

	Valuation for take-over ₹
Land and Building	96,000
Plant and Machinery	28,000
Motor vehicles	15,000
Inventories	60,000
Debtors	24,000
Creditors	25,000
Goodwill	10,000

The closing balance in Axis Bank account is to be transferred to Dena Bank account before all the other dissolution entries are effected in the partnership ledgers.

Lal took over one of the motor vehicles at an agreed amount of ₹ 2,000. All other liabilities were paid from the Dena Bank account.

The purchase consideration is discharged by an issue at par of ₹ 60,000 10% Debentures (fully paid) to the partners in their capital account proportions as shown in the above balance sheet plus equity shares in Hari Ltd. of ₹ 1 each (fully paid to make up the balance due to each partner).

You are required to

(i) prepare (a) Realisation Account (b) Partners' Capital Accounts (c) Bank account of Axis Bank and Dena Bank in the books of Hari Brothers;

(ii) 'Business purchase account' and 'Hari Brothers' account in Hari Ltd.'s books.

Partnership-Sale to a Company

3. Prabhu & Co. is a partnership firm consisting of Mr. Prabhu, Mr. Bhola and Mr. Shiv who share profits and losses in the ratio of 2:2:1 and Bhagwan Ltd. is a company doing similar business.

Following is the Balance sheet of the firm and that of the company as at 31.3.2012:

Liabilities	Prabhu *& Co.*	Bhagwan *Ltd.*		Prabhu *& Co.*	Bhagwan *Ltd.*
	₹	₹		₹	₹
Equity share Capital:			Plant & machinery	2,50,000	8,00,000
Equity shares of ₹ 10 each		10,00,000	Furniture & fixture Stock in trade	25,000 1,00,000	1,12,500 4,25,000
Partners' capital:			Sundry debtors	1,00,000	4,12,500
Prabhu	1,00,000		Cash at bank	5,000	2,00,000

Bhola	1,50,000		Cash in hand	20,000	50,000
Shiv	50,000				
General reserve	50,000	3,50,000			
Sundry creditors	1,50,000	6,50,000			
	5,00,000	20,00,000		5,00,000	20,00,000

It was decided that the firm Prabhu & 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 Bhagwan Ltd. by issuing 25,000 shares of ₹ 10 each at a premium of ₹ 2 per share.

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

The creditors of Prabhu & Co. includes ₹ 50,000 payable to Bhagwan Ltd. An unrecorded liability of ₹ 12,500 of Prabhu & Co. must also be taken over by Bhagwan Ltd.

Prepare:

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

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

Employee Stock Option Plans

4. The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2008
Number of employees covered	300
Vesting condition: Continuous employment upto 31/03/11	100
Nominal value per share (₹)	10
Exercise price per share (₹)	40
Fair value of option per share on grant date (₹)	20
Exercise date	July 31, 2011

The number of options to vest per employee shall depend on company's average annual earning after tax during vesting period as per the table below:

Average annual earning after tax	Number of options per employee
Less than ₹ 100 crores	Nil
₹ 100 crores to less than ₹ 120 crores	30
₹ 120 crores to less than ₹ 150 crores	45
Above ₹ 150 crores	60

Position on 31/03/09

(a) The company expects to earn ₹ 115 crores after tax on an average per year during vesting period.

(b) Number of employees expected to be entitled to option = 280

Position on 31/03/10

(a) The company expects to earn ₹ 130 crores after tax on an average per year during vesting period.

(b) Number of employees expected to be entitled to option = 270

Position on 31/03/11

(a) The company earned ₹ 128 crores after tax on an average per year during vesting period.

(b) Number of employees entitled to option = 275

Position on July 31, 2011

Number of employees exercising option = 265

Compute expenses to be recognised in each year and value of options forfeited.

Buy –Back of Shares

5. Narang Ltd has the following capital structure as on 31-03-2012:

Particulars		(₹ In lakhs)
Equity share capital (shares of ₹ 10 each, fully paid)		1,980
Reserve and Surplus:		
General Reserve	1,440	
Securities Premium Account	540	
Profit and Loss Account	540	
Infrastructure Development Reserve	1,080	3,600
Loan Funds		10,800

The shareholders of Narang Ltd., on the recommendation of their Board of Directors, approved on 2nd September, 2012 a proposal to buy-back maximum permissible number of equity shares, considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price 20% over market value.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under, a situation where the loan funds of the company were either ₹ 7,200 lakhs or ₹ 9,000 lakhs.

Assuming that the entire buy-back is completed by 09-12-2012, show the accounting entries with full narrations in the company's books in each situation.

Underwriting of Shares

6. Rathnam Chemicals Limited planned to set up a unit for manufacture of shoes. For the purpose of financing the unit, the Board of Directors have issued 15,00,000 equity shares of ₹ 10 each. 30% of the issue was reserved for promoters and the balance was offered to the public. P, Q and R have come forward to underwrite the public issue in the ratio of 3:1:1 and also agreed for firm undertwriting of 30,000; 20,000 and 10,000 shares respectively. The underwriting commission was fixed at 4%. The amount payable on application was ₹ 2.50 per share and allotment was ₹ 2.50 per share. The details of subscriptions excluding firm underwriting are:

Marked forms of P	5,50,000 shares
Marked forms of Q	2,00,000 Shares
Marked forms of R	1,50,000 Shares
Unmarked forms	50,000 Shares

You are required to show

(i) the allocation of liability among underwriters with workings assuming that the benefit of firm underwriting is given to individual underwriters.

(ii) Journal entries for:

a) the allotment of shares to the underwriters,

b) the commission due to each of them and,

c) the net cash paid or received.

Redemption of Debentures

7. Malik Ltd. have authorized capital of 8,00,000 equity shares of ₹ 10 each. But out of these 2,40,000 shares have been issued as fully paid.

The company has an outstanding 14% Debentures loan of ₹ 24,00,000 redeemable at 102 per cent and interest has been paid up to date on December 31, 2012. On that date, the balance of the Debenture Redemption Reserve Account is ₹ 20,00,000 and that out corresponding Investment Account ₹ 20,00,000 (at cost) of which the market value is ₹ 18,00,000.

The directors resolved to redeem the Debentures on January 1, 2013 and the holders are given an option to receive payment either wholly in cash or wholly in fully paid equity shares @ 8 shares for every ₹ 100 of debentures.

75% of the holders decided to exercise the option for taking shares in repayment and cash for the rest is procured by realizing an adequate amount of investment at the prevailing market value.

Draw up journal entries (including Cash Book Entries) to give effect to the above transactions.

Amalgamation of companies

8. The following are the summarized Balance Sheets of A Ltd. and B Ltd. as on 31st December, 2011:

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share Capital			*Fixed Assets*	7,00,000	2,50,000
Equity Shares of ₹ 10 each	6,00,000	3,00,000	*Current Assets:*		
			Stock	2,40,000	3,20,000
10% Pref. Shares of ₹100 each	2,00,000	1,00,000	Debtors	3,60,000	1,90,000
			Bills Receivable	1,40,000	1,00,000
Reserves and Surplus	3,00,000	2,00,000	Cash at Bank	1,10,000	40,000
Secured Loans:					
12% Debentures	2,00,000	1,50,000			
Current Liabilities:					
Sundry Creditors	2,20,000	1,25,000			
Bills Payable	30,000	25,000			
	15,50,000	9,00,000		15,50,000	9,00,000

Fixed Assets of both the companies are to be revalued at 15% above book value. Stock in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, A Ltd. will absorb B Ltd. on the following terms:

(i) 8 Equity Shares of ₹ 10 each will be issued by A Ltd. at par against 6 shares of B Ltd.

(ii) 10% Preference Shareholders of B Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in A Ltd.

(iii) 12% Debentureholders of B Ltd. are to be paid at 8% premium by 12% Debentures in A Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by A Ltd. to B Ltd. for Liquidation expenses. Sundry Creditors of B Ltd. include ₹ 10,000 due to A Ltd.

Prepare:

(a) Absorption entries in the books of A Ltd.

(b) Statement of consideration payable by A Ltd.

Internal Reconstruction of a Company

9. The Abridged Balance Sheet (Draft) of Cyber Ltd. as on 31st March, 2012 is as under:

Liabilities	₹	Assets	₹
24,000, Equity shares of ₹ 10 each.	2,40,000	Goodwill	5,000
5000, 8% cumulative preference shares of ₹ 10 each.	50,000	Fixed Assets Inventories	2,57,000 50,000
8% Debentures	1,00,000	Trade receivables	60,000
Interest accrued on debentures	8,000	Bank	1,000
Trade payables	1,00,000	Profit & Loss Account	1,25,000
	4,98,000		4,98,000

The following scheme is passed and sanctioned by the court:

(i) A new company Mahal Ltd is formed with ₹ 3,00,000, divided into 30,000 Equity shares of ₹ 10 each.

(ii) The new company will acquire the assets and liabilities of Cyber Ltd. on the following terms:

(a) Old company's debentures are paid by similar debentures in new company and for outstanding accrued interest, shares of equal amount are issued at par.

(b) The trade payables are paid for every ₹ 100, ₹ 16 in cash and 10 shares issued at par.

(c) Preference shareholders are to get equal number of equity shares at par. For arrears of dividend amounting to ₹ 12,000, 5 shares are issued at par for each ₹ 100 in full satisfaction.

(d) Equity shareholders are issued one share at par for every three shares held.

(e) Expenses of ₹ 8,000 are to be borne by the new company.

(iii) Current Assets are to be taken at book value (except stock, which is to be reduced by ₹ 3,000). Goodwill is to be eliminated, balance of purchase consideration being attributed to fixed assets.

(iv) Remaining shares of the new company are issued to public at par and are fully paid.

You are required to show:

(a) In the old company's books:

(i) Realisation Account

(ii) Equity Shareholder's Account

(b) In the new company's books:

(i) Bank Account

(ii) Summarised Balance Sheet as per the requirements of Revised Schedule-VI.

Liquidation of a company

10. Given below is the Balance Sheet (Draft) of Star Ltd. as on 31st March, 2012:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
2,500, 6% Preference Shares of		Machinery	4,75,000
₹ 100 each fully paid up	2,50,000	Furniture	25,000
5,000, Equity Shares of ₹ 100		Current Assets	
each fully paid up	5,00,000	Stock	3,00,000
5,000 Equity Shares of ₹ 100		Debtors	6,00,000
each, ₹ 75 paid up	3,75,000	Cash at Bank	1,25,000
Bank Loan	2,50,000	Profit and Loss Account	7,50,000
Current Liabilities and Provision:			
Creditors	8,75,000		
Income-tax Payable	25,000		
	22,75,000		22,75,000

The company went into liquidation on 1st April, 2012. The assets were realised as follows:

	₹
Machinery	4,15,000
Furniture	20,000
Stock	2,75,000
Debtors	5,75,000
Liquidation expenses	10,000

The liquidators are entitled to a commission at 2% on amount paid to unsecured creditors excluding payment made to preferential creditors. Calls on partly paid shares were made but the amount due on 500 shares were found to be irrecoverable. Bank loan is secured on stock.

Prepare Liquidator's Statement of Account.

Financial Statements of Insurance Companies

11. Fire Insurance division of Magic Insurance Company provides the following information. You are required to show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2012.

	Direct Business	Re-insurance
	₹	₹
Claim paid during the year	35,30,000	8,20,000
Claim received		3,20,000
Claim payable		
1st April, 2011	8,23,000	58,000
31st March, 2012	8,75,000	87,000
Claim Receivable:		
1st April, 2011	-	85,000
31st March, 2012	-	1,42,000
Expenses of Management	3,45,000	
(Including ₹ 38,000 Surveyor's fee and ₹ 42,000 Legal expenses for settlement of claims)		

Financial Statements of Banking Companies

12. (a) The following is an extract from the Trial Balance of Laxmi Bank as at 31st March 2012:

	₹	₹
Bills Discounted	51,50,000	
Rebate on bills discounted not yet due, April 1, 2011		30,501
Discount received		1,45,500

An analysis of the bills discounted as shown above shows the following:

Date of Bills	Amount ₹	Term Months	Rate of Discount p.a.(%)
January 13	7,50,000	4	12

February 17	6,00,000	3	10
March 6	4,00,000	4	11
March 16	2,00,000	2	10
	19,50,000		

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate journal entries for the same. For calculation, take 1 year = 365 days.

(b) From the following information, you are required to calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of Good Bank Ltd. for the year ended 31.3.2012:

	(₹ in '000)
Interest and Discount	7,500
Other Income	100
Interest paid on deposits	2,000
Operating expenses	2,500
Additional Information:	
Classification of Advances:	
(i) Standard assets	3,000
(ii) Sub-standard assets (fully secured)	1,200
(iii) Doubtful assets (fully unsecured)	500
(iv) Doubtful assets (fully secured)	
Less than 1 year	80
More than 1 year, but less than 3 years	200
More than 3 years	200
(v) Loss assets	400
Provide 40% of the profits towards provision for taxation.	
Transfer 25% of the profits to Statutory Reserves.	

Financial Statements of Electricity Company

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

		(₹ '000)
Particulars	*Dr.*	*Cr.*
Share Capital :		
15,00,000 Equity Shares of ₹ 10 each		150,00
Patents and trademark	5,00	

14% Debentures		60,00
11% Term Loan		35,00
Land	31,00	
Building	85,00	
Power Plant	150,00	
Electrical Instruments	14,00	
Capital reserve		18,00
Contingency reserves		30,00
Transformers	41,00	
Net revenue account		17,00
Inventories	29,00	
Trade receivables	16,00	
Contingency reserve investments	30,00	
Bank balance	6,00	
Public lamps	8,00	
Depreciation fund		60,00
Trade payables		15,00
Proposed dividend		30,00
	415,00	415,00

Prepare Balance Sheet of XYZ Electric Supply Ltd as on 31st March, 2012 as per Revised Schedule VI.

Departmental Accounts

14. Trading and Profit and Loss Account of Umeed Equipment Co. for the six months ended at 31.3.2012 is presented to you in the following form:

Particulars	₹	*Particulars*	₹
Purchases:		*Sales:*	
Dry cleaners (Dept. X)	70,350	Dry cleaners (Dept. X)	75,000
Dumpsters (Dept. Y)	45,300	Dumpsters (Dept. Y)	50,000
Spares Parts (Dept. Z)	32,200	Spares Parts (Dept. Z)	12,500
Salaries and wages	24,000	Stock as on 31.3.2012	
Rent	10,900	Dry cleaners (Dept. X)	30,050
Profit	17,250	Dumpsters (Dept. X)	10,150
		Spare Parts (Dept. Z)	22,300
	2,00,000		2,00,000

Other information's are as follows:

(i) Department 'X' and Department 'Y' represents the show room and Department Z represents the work shop.

(ii) Dry cleaners and Dumpsters are sold at the show room and spare parts at work shop.

(iii) Salaries and wages were allocated between show room and work shop in the ratio of 3:1. It was decided to allocate the show room salaries and wages in the ratio of 1 :2 between the departments X and Y.

(iv) The work shop rent is ₹ 250 per month. The rent of show room is to be divided equally between the departments X and Y.

You are required to prepare Departmental Accounts for each of the three departments X, Y and Z.

Branch Accounting

15. Fanna Cloth Mills opened a branch at Mumbai on 1st April, 2011. The goods were invoiced to the branch at selling price which was 125% of the cost to the head office.

The following are the particulars of the transactions relating to branch during the year ended 31st March, 2012:

	₹	₹
Goods sent to branch at cost to head office		42,12,600
Sales:		
Cash	18,76,050	
Credit	26,61,450	45,37,500
Cash collected from debtors		23,55,000
Discount allowed to debtors		23,550
Returns from debtors		15,000
Spoiled cloth in bales written off at invoice price		7,500
Cheques sent to branch for:		
Rent	1,08,000	
Salaries	2,70,000	
Other Expenses	52,500	4,30,500

Prepare Branch Account based on invoice price under Debtors method for ascertaining profit for the year ended 31st March, 2012.

16. On 31st December, 2012 the following balances appeared in the books of Chennai Branch of an English firm having its HO office in New York:

	Amount in ₹	*Amount in ₹*
Stock on 1st Jan., 2012	2,34,000	
Purchases and Sales	15,62,500	23,43,750

Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	36,31,400

Stock on 31st December, 2012 was ₹ 6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2012 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange on 31st December, 2011 was ₹ 52 and on 31st December, 2012 was ₹ 51. The average rate for the year was ₹ 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch.

AS 4

17. (a) A company has filed a legal suit against the debtor from whom ₹ 15 lakh is recoverable as on 31.3.2012. The chances of recovery by way of legal suit are not good as per legal opinion given by the counsel in April, 2012. Can the company provide for full amount of ₹ 15 lakhs as provision for doubtful debts? Discuss in detail.

AS 5

(b) Priya Ltd had to pay delayed cotton clearing charges over and above the negotiated price for taking delayed delivery of cotton from the supplier's godown. Upto 2010-11, the company has regularly included such charges in the valuation of closing stock. This charge, being in the nature of interest, the company has decided to exclude it from closing stock valuation. This would result in decrease of profit by ₹ 8.60 lakhs. What will be its treatment in the financial statements for the year ended 31st March, 2012?

AS 11

18. (a) "Assets and liabilities and income and expenditure items in respect of dependent foreign branches are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue." Comment.

AS 12

(b) A fixed asset is purchased for ₹ 20 lakhs. Government grant received towards it is ₹ 8 lakhs. Residual Value is ₹ 4 lakhs and useful life is 4 years. Assume depreciation on the basis of Straight Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of ₹ 5 lakhs due to non compliance with certain conditions. Pass journal entries for first two years.

AS16

19 (a) In May, 2011, Speed Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2012 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2012 amounted to ₹ 25 lakhs. Can ₹ 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building?

AS 19

(b) Prakash Limited leased a machine to Badal Limited on the following terms:

		(₹ In lakhs)
(i)	Fair value of the machine	48.00
(ii)	Lease term	5 years
(iii)	Lease rental per annum	8.00
(iv)	Guaranteed residual value	1.60
(v)	Expected residual value	3.00
(vi)	Internal rate of return	15%

Discounted rates for 1st year *to* 5th year are 0.8696, 0.7561, 0.6575, 0.5718, and 0.4972 respectively.

Ascertain Unearned Finance Income.

AS 20

20. (a) No. of equity shares outstanding 30,00,000

Basic earnings per share ₹ 5.00

No. of 12% convertible debentures of ₹ 100 each 50,000

Each debenture is convertible into 10 equity shares Tax Rate 30%

Compute Diluted Earnings per Share. Working note should form part of the answer.

AS 29

(b) A company is in a dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 900 lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal with the same in the annual accounts of the company?

SUGGESTED ANSWERS/HINTS

1. (a) **Realisation Account as on 31.3.2012**

2012		₹	₹	2012		₹	₹
March 31	To Sundry assets:			March 31	By Provision for doubtful debts		750
	Furniture and fixture	6,000			By Trade creditors		23,250
					By Cash:		
	Trademarks	10,500			Furniture and fixtures	1,500	
	Trade Debtors	24,000			Trademarks	6,000	
	Inventories	15,000	55,500		Trade Debtors	16,500	
	To Cash (payment to trade creditors)		23,000		Inventories	12,000	
	To Cash (realization expenses)		750		Surrender value of joint life policy	4,500	40,500
					By Partners' capital accounts: (loss on realisation)		
					Kamal	4,425	
					Kishor	4,425	
					Mohan	2,950	
					Sohan	2,950	14,750
			79,250				79,250

(b) **Cash Account**

2012		₹	2012		₹
March 31	To Balance b/d	3,000	March 31	By Realisation A/c	
	To Realisation A/c (Assets realised)	40,500		Trade creditors 23,000	
				Realisation expenses 750	23,750
	To Partners' capital A/c:-			By Kamal's loan A/c	15,000
	Kamal 4,425			To Partners' capital A/c (final payment)	
	Kishor 4,425				
	Sohan 2,950	11,800		Kamal's capital A/c	17,771
	To Mohan's capital A/c	5,550		Kishor's capital A/c	13,329
	To Sohan's capital A/c	9,000			
		69,850			69,850

(c) Partners' Capital Accounts

		Kamal	Kishor	Mohan	Sohan			Kamal	Kishor	Mohan	Sohan
2012		₹	₹	₹	₹	2012		₹	₹	₹	₹
March 31	To Balance b/d	-	-	24,000	9,000	March 31	By Balance b/d	30,000	22,500		
	To Realisation A/c (loss)	4,425	4,425	2,950	2,950		By Cash A/c	4,425	4,425	-	2,950
	To Mohan's Capital A/c (Loss of capital written off)	12,229	9,171	-	-		By Cash A/c	- -	- -	5,550	9,000
							By Kamal's Capital A/c			12,229	-
							By Kishor's Capital A/c	- -	-	9,171 -	- -
	To cash A/c	17,771	13,329								
		34,425	26,925	26,950	11,950			34,425	26,925	26,950	11,950

Working Notes:

(1) There was a debit balance of ₹ 9,000 in Sohan's capital account and Sohan is a solvent partner, therefore he must bring cash for balance capital.

(2) 'Mohan' is insolvent therefore he is not able to bring cash. The deficiency in his account is borne by 'Kamal' and 'Kishor' in the ratio of 4:3 (capital ratio) as per Garner vs Murray. Deficiency in 'Mohan's account = ₹ 24,000 + ₹ 2,950- ₹ 5,550 = ₹ 2,1400

Borne by Kamal =4/7 x ₹ 21,400= ₹ 12,229

Borne by Kishor =3/7 x ₹ 21,400= ₹ 9,171

(3) 'Mr. Kamal's loan is paid off in cash.

2. (i) (a) In the books of Hari Brothers

Realisation Account

	₹	₹		₹
To Land and buildings		50,000	By Creditors	25,000
To Plant and machinery		30,000	By Lal's capital A/c	2,000
To Motor vehicles		20,000	By Dena Bank A/c	25,000
To Inventories		60,000	By Hari Ltd.	1,83,000
To Debtors		25,000		
To Partners' capital accounts				
Hari (2/5)	20,000			
Lal (2/5)	20,000			
Jay (1/5)	10,000	50,000		
		2,35,000		2,35,000

(b) Partners' Capital Accounts

Particulars	Hari ₹	Lal ₹	Jay ₹	Particulars	Hari ₹	Lal ₹	Jay ₹
To Realisation A/c(motor vehicle takeover)		2,000		By Balance b/d	70,000	30,000	20,000
To 10% Debentures*	35,000	15,000	10,000	By Current A/c	7,000	5,000	3,000
To Equity shares	62,000	38,000	23,000	By Realisation A/c Profit	20,000	20,000	10,000
	97,000	55,000	33,000		97,000	55,000	33,000

* Debentures have been issued in proportion of capital account balances i.e. in ratio of 7:3:2.

(c) Bank Account

Particulars	Axis Bank	Dena Bank	Particulars	Axis Bank	Dena Bank
	₹	₹		₹	₹
To Balance b/d	5,000	-	By Balance b/d	-	20,000
To Axis Bank	-	5,000	By Loan (Gopi Ltd.)	-	7,000
To Realisation A/c	-	25,000	By Loan-Hari	-	3,000
			By Dena Bank	5,000	
	5,000	30,000		5,000	30,000

(ii) In the books of Hari Ltd.

Business Purchase Account

	₹		₹
To Creditors	25,000	By Land and buildings	96,000
To Dena Bank (overdraft)	25,000	By Plant and Machinery	28,000
To Hari Brothers	1,83,000	By Motor Vehicles	15,000
		By Inventories	60,000
		By Debtors	24,000
		By Goodwill	10,000
	2,33,000		2,33,000

Hari Brothers Account

	₹		₹
To 10% Debentures A/c	60,000	By Business purchase	1,83,000
To Equity share capital A/c	1,23,000		
	1,83,000		1,83,000

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

Realisation Account

	₹		₹
To Plant & Machinery	2,50,000	By Sundry Creditors	1,50,000
To Furniture & Fixture	25,000	By Bhagwan Ltd. (Refer W.N.)	3,00,000
To Stock in trade	1,00,000	By Partners' Capital Accounts (loss):	
To Sundry Debtors	1,00,000	Prabhu's Capital A/c	10,000
		Bhola's Capital A/c	10,000
		Shiv's Capital A/c	5,000
	4,75,000		4,75,000

Partners' Capital Accounts

	Prabhu	Bhola	Shiv		Prabhu	Bhola	Shiv
	₹	₹	₹		₹	₹	₹
To Realisation A/c	10,000	10,000	5,000	By Balance b/d	1,00,000	1,50,000	50,000
To Shares in Bhagwan Ltd.	1,20,000	1,20,000	60,000	By General Reserve	20,000	20,000	10,000
To Cash	-	40,000	-	By Cash	10,000	-	5,000
	1,30,000	1,70,000	65,000		1,30,000	1,70,000	65,000

Cash and Bank Account

		₹	₹			₹	₹
To	Balance b/d	20,000	5,000	By	Cash A/c (Contra)*		5,000
To	Bank A/c (Contra)*	5,000		By	Bhola	40,000	
To	Prabhu	10,000					
To	Shiv	5,000					
		40,000	5,000			40,000	5,000

(ii) In the Books of Bhagwan Ltd.

Journal Entries

			Dr. (₹)	*Cr. (₹)*
1.	Business Purchase Account	Dr.	3,00,000	
	To Liquidators of Prabhu & Co.			3,00,000
	(Being business of Prabhu & Co. purchased and payment due)			
2.	Plant and Machinery A/c	Dr.	2,50,000	
	Furniture and Fixture A/c	Dr.	25,000	
	Stock in Trade A/c	Dr.	1,00,000	
	Sundry Debtors A/c	Dr.	1,00,000	
	To Sundry Creditors			1,50,000
	To Unsecured Liability			12,500
	To Business Purchase Account			3,00,000
	To Capital Reserve (B.F.)			12,500
	(Being take over of all assets and liabilities)			
3.	Liquidators of Prabhu & Co.	Dr.	3,00,000	
	To Equity Share Capital Account			2,50,000
	To Securities Premium Account			50,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)			

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

4.	Sundry Creditors Account	Dr.	50,000	
	To Sundry Debtors Account			50,000
	(Being mutual owing eliminated)			

Working Note:

Computation of purchase consideration:

25,000 Equity shares of ₹ 12 each = ₹ 3,00,000

Equity shares to be given to partners :

Prabhu	=	10,000 Shares @ ₹ 12 = ₹ 1,20,000
Bhola	=	10,000 shares @ ₹ 12 = ₹ 1,20,000
Shiv	=	5,000 shares @ ₹ 12 = ₹ 60,000

4. Calculation of expenses to be recognized in each year

Year	Calculation	Expense for Period (₹)	Cumulative expense (₹)
2008-09	(280 x 30) options x ₹ 20 x 1/3	56,000	56,000
2009-10	[(270 x 45) options x ₹ 20 x 2/3] – 56,000	1,06,000	1,62,000
2010-11	[(275 x 45) options x ₹ 20 x 3/3] – 1,62,000	85,500	2,47,500

Value of option forfeited as on July 31, 2011

Fair value of option per share= ₹ 20

Number of shares not subscribed = (275-265) x 45 = 450

Value of options forfeited = 450 x ₹ 20 = ₹ 9,000.

5. (a) Statement determining the maximum number of shares to be bought back

Number of shares

Particulars	*When loan fund is*		
	₹ 10,800 lakhs	₹ 7,200 lakhs	₹ 9,000 lakhs
Shares Outstanding Test (W.N.1)	49.5	49.5	49.5
Resources Test (W.N.2)	37.5	37.5	37.5
Debt Equity Ratio Test (W.N.3)	Nil	22.5	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	22.5	Nil

Journal Entries for the Buy Back (applicable only when loan fund is ₹ 7,200 lakhs)

			₹ in lakhs	
			Debit	*Credit*
(a)	Equity shares buy back account	Dr.	675	
	To Bank account			675
	(Being buy back of 22.5 lakhs equity shares of ₹ 10 each @ ₹ 30 per share)			
(b)	Equity share capital account	Dr.	225	
	Securities premium account	Dr.	450	
	To Equity shares buy back account			675
	(Being cancellation of shares bought back)			
(c)	General reserve account	Dr.	225	
	To Capital redemption reserve account			225
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. Shares Outstanding Test

Particulars	*(Shares in lakhs)*
Number of shares outstanding	198
25% of the shares outstanding	49.5

2. Resources Test

Particulars		
Paid up capital (₹ in lakhs)		1,980
Free reserves (₹ in lakhs)		
General Reserve	1,440	
Securities Premium A/c	540	
Profit and Loss A/c	540	2,520
Shareholders' funds (₹ in lakhs)		4,500
25% of Shareholders fund (₹ in lakhs)		₹ 1,125
Buy back price per share (₹)		₹ 30
Number of shares that can be bought back (shares in lakhs)		37.5 lakhs shares

3. Debt Equity Ratio Test

	Particulars	*When loan fund is*		
		₹ 10,800 lakhs	*₹ 7,200 lakhs*	*₹ 9,000 lakhs*
(a)	Loan funds (₹ in lakhs)	10,800	7,200	9,000
(b)	Minimum equity to be maintained **after** buy back in the ratio of 2:1 (₹ in lakhs)	5,400	3,600	4,500
(c)	Present equity shareholders fund (₹ in lakhs)	4,500	4,500	4,500
(d)	Future equity share holder fund (₹ in lakhs) (See Note 2)	N.A.	4,275 (4,500-225)	N.A.
(e)	Maximum permitted buy back of Equity (₹ in lakhs) [(d) – (b)] (See Note 2)	Nil	675 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in lakhs) (See Note 2)	Nil	22.5 (by simultaneous equation)	Nil

Note:

1. Under Situations 1 & 3 the company does not qualify for buy back of shares as per the provisions of Section 77A of the Companies Act, 1956.

2. As per Section 77A of the Companies Act 1956, the ratio of debt owed by the company should not be more than twice the capital and its free reserve **after** such buy-back. Also as per the section, on buy-back of shares out of free reserves, a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 80, utilization of CRR is restricted to issuance of fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buyback has to be excluded from present equity.

   Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

   Suppose amount transferred to CRR account is ‘x’ and maximum permitted buy-back of equity is ‘y’.

Then $(4,500 - x) - 3,600 = y$ (1)

$$\left(\frac{y}{30} \times 10\right) = x \qquad \text{Or} \qquad 3x = y \qquad (2)$$

by solving the above equation we get $x =$ *₹ 225 lakhs*

$y =$ ₹ 675 lakhs

6. (i) Allocation of liability among underwriters

	P (No. of Shares)	Q (No. of Shares)	R (No. of Shares)	Total (No. of Shares)
Gross liability	6,30,000	2,10,000	2,10,000	10,50,000
Less: Marked Applications	(5,50,000)	(2,00,000)	(1,50,000)	(9,00,000)
	80,000	10,000	60,000	1,50,000
Less: Unmarked Applications (In the ratio of 3:1:1)	(30,000)	(10,000)	(10,000)	(50,000)
	50,000	-	50,000	1,00,000
Less : Firm undertaking	(30,000)	(20,000)	(10,000)	(60,000)
	20,000	(20,000)	40,000	40,000
Surplus of Q distributed between P & R in the ratio of 3:1	(15,000)	20,000	(5,000)	-
	5,000	-	35,000	40,000
Add: Firm undertaking	30,000	20,000	10,000	60,000
Underwriters' Liability	35,000	20,000	45,000	1,00,000

(ii) Rathnam Ltd.

Journal Entries

		Dr.	Cr.
		₹	₹
Bank A/c	Dr.	1,50,000	
To Share application A/c			1,50,000
(Being share application money received on firm application for shares 30,000 to P, 20,000 to Q & 10,000 to R @ ₹ 2.5 per share)			

P's A/c	Dr.	12,500	
R's A/c	Dr.	87,500	
To Equity share Capital A/c			1,00,000
(Allotment of shares to underwriters: 5,000 shares to P and 35,000 shares to R)			
Underwriting Commission A/c	Dr.	4,20,000	
To P's A/c			2,52,000
To Q's A/c			84,000
To R's A/c			84,000
(Underwriting commission payable @ 4% on the amount of shares underwritten) [W.N. 2]			
P's A/c	Dr.	2,39,500	
Q's A/c	Dr.	84,000	
To Bank A/c			3,23,500
(Amount paid to P and Q in final settlement) [W.N. 1]			
Bank A/c	Dr.	3,500	
To R's A/c			3,500
(Amount received from R on shares allotted less underwriting commission) [W.N. 1]			

Working Notes:

(1) Calculation of amounts payable to/by underwriters:

	P	Q	R
Liabilities (No. of shares)	35,000	20,000	45,000
Less: Firm undertaking (No. of shares)	(30,000)	(20,000)	(10,000)
Net liability (No. of shares)	5,000	-	35,000
	₹	₹	₹
Amount payable on application @ ₹ 2.50 per share	12,500	-	87,500
Underwritting commission receivable by underwriters @ 4%	2,52,000	84,000	84,000
Amount Payable to underwriters	2,39,500	84,000	-
Amount receivable from underwriters			3,500

(2) Commission of P @ 4% = 2,52,000 =(6,30,000 shares x ₹ 10 x 4%)

Commission of Q @ 4% = 84,000 =(2,10,000 shares x ₹ 10 x 4%)

Commission of R @ 4% = 84,000 =(2,10,000 shares x ₹ 10 x 4%).

7. **Journal Entries**

2013			₹	₹
Jan. 1	14% Debentures A/c	Dr.	24,00,000	
	Premium on Redemption of Debentures A/c	Dr.	48,000	
	To Debentures holders A/c			24,48,000
	(Being amount payable on redemption of ₹ 24,00,000 debentures at a premium of 2%)			
	Debenture Redemption Reserve A/c	Dr.	48,000	
	To Premium on Redemption of Debentures A/c			48,000
	(Being premium on redemption adjusted against Debenture Redemption Reserve A/c)			
	Debenture holders A/c $\left(24,48,000 \times \frac{75}{100}\right)$	Dr.	18,36,000	
	To Equity Share Capital A/c (1,44000 × 10)			14,40,000
	To Premium on Issue of Shares A/c (1,44,000 x 2.75)			3,96,000
	(Being issue of 1,44,000 shares of ₹ 10 each at a premium of ₹ 2.75 per share to 75% debenture holders who exercised conversion option)			
	Bank A/c	Dr.	6,12,000	
	Profit & Loss A/c	Dr.	68,000	
	To Debenture Redemption Reserve Investment A/c			6,80,000
	(Being investment sold & loss transferred to Profit & Loss A/c)			
	Debenture holders A/c (24,48,000 x 25%)	Dr.	6,12,000	
	To Bank A/c			6,12,000
	(Being cash payment to 25% debenture-holders)			

	Debenture Redemption Reserve A/c	Dr.	18,84,000	
	To General Reserve A/c			18,84000
	(Being balance of Debenture Redemption Reserve A/c transferred on 100% redemption of debentures)			
	Investment A/c	Dr.	13,20,000	
	To Debenture Redemption Reserve Investment A/c			13,20,000
	(Being balance of Debenture Redemption Reserve Investment transferred to Investment (General) A/c)			

Working Notes:

(1)	For every ₹ 100 debenture, amount payable on redemption including premium is	₹ 102
	Less: Face value of 8 shares of ₹ 10 each to be issued for redemption of each debenture (8 × ₹ 10)	₹ 80
	Premium on issue of 8 shares	₹ 22
	Therefore, premium on issue of each share $\left(\frac{₹\ 22}{8}\right)$	₹2.75
(2)	Shares to be issued for conversion of 75% Debentures into shares @ 8 shares for every ₹ 100 Debenture i.e. ₹24,00,000 $\times \frac{75}{100} \times \frac{8}{100} = 1,44,000$ shares	
(3)	Cash payment for remaining 25% debenture holders who exercised the option of cash i.e., ₹24,00,000 $\times \frac{25}{100} \times \frac{102}{100} =$ ₹6,12,000	
(4)	Face value of investment to be sold to realize ₹ 6,12,000 will be ₹ 6,80,000	
	$\left(\text{i.e.}₹\frac{20,00,000}{18,00,000} \times ₹\ 6,12,000\right)$	
	Loss on sale of investment = 6,80,000 – 6,12,000 = 68,000	
(5)	Debenture Redemption Reserve transferred to General Reserve:	
	20,00,000 – 48,000 – 68,000 = ₹ 18,84,000	

8. (a) Absorption Entries in the Books of A Ltd.

		Dr. ₹	Cr. ₹
Fixed Assets	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of fixed assets at 15% above book value)			
Reserve and Surplus	Dr.	60,000	
To Equity Dividend			60,000
(Declaration of equity dividend @ 10%)			
Equity Dividend	Dr.	60,000	
To Bank Account			60,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	5,20,000	
To Liquidator of B Ltd.			5,20,000
(Consideration payable for the business taken over from B Ltd. inclusive of liquidation expenses of ₹ 30,000)			
Fixed Assets (115% of ₹ 2,50,000)	Dr.	2,87,500	
Stock (95% of ₹ 3,20,000)	Dr.	3,04,000	
Debtors	Dr.	1,90,000	
Bills Receivable	Dr.	1,00,000	
Cash at Bank	Dr.	10,000	
(₹ 40,000 – ₹ 30,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 1,90,000)			9,500
To Sundry Creditors			1,25,000
To 12% Debentures in B Ltd.			1,62,000
To Bills Payable			25,000
To Business Purchase Account			5,20,000
To Capital Reserve (Balancing figure)			50,000
(Incorporation of various assets and liabilities taken over from B Ltd. at agreed values, profit being credited to capital reserve)			
Liquidator of B Ltd.	Dr.	5,20,000	
To Equity Share Capital			4,00,000

To 10% Preference Share Capital			90,000
To Bank A/c			30,000
(Discharge of consideration for B Ltd.'s business and liquidation expenses of ₹ 30,000)			
12% Debentures in B Ltd. (₹ 1,50,000 × 108%)	Dr.	1,62,000	
Discount on Issue of Debentures	Dr.	18,000	
To 12% Debentures			1,80,000
(Allotment of 12% Debentures to debenture holders at a discount of 10% to discharge the liability on B Ltd. debentures)			
Sundry Creditors	Dr.	10,000	
To Sundry Debtors			10,000
(Cancellation of mutual owing)			

(b) **Statement of Consideration payable by A Ltd.**

Shares to be allotted 30,000/6 × 8 = 40,000

i.e. A Ltd. will issue 40,000 shares of ₹ 10 each= ₹ 4,00,000 (i)

For 10% preference shares, to be paid at 10% discount

₹ $\frac{1,00,000 \times 90}{100}$ ₹ 90,000 (ii)

Consideration amount [(i) + (ii)] ₹ 4,90,000

Note: It has been assumed that dividend on equity shares have been paid by both the companies.

9. (a) (i) **In the books of Cyber Ltd i.e Old company's books**

Realisation Account

	₹		₹
To Goodwill	5,000	By 8% Debentures	1,00,000
To Fixed assets	2,57,000	By Interest accrued on debentures	8,000
To Inventories	50,000		
To Trade receivables	60,000	By Trade payables	1,00,000
To Bank	1,000	By P Ltd. (Purchase consideration)	1,36,000
To Preference share holders A/c (W.N.3)	6,000	By Equity shareholders (Bal. fig.)	35,000
	3,79,000		3,79,000

(ii) Equity Shareholders' Account

	₹		₹
To Profit & loss A/c	1,25,000	By Equity Share capital	2,40,000
To Equity shares in Mahal Ltd.	80,000		
To Realisation A/c	35,000		
	2,40,000		2,40,000

(b) (i) In the books of Mahal Ltd (New company)

Bank Account

	₹		₹
To Business Purchase	1,000	By Goodwill (for expenses on absorption)	8,000
To Equity share application & allotment A/c (W.N. 4)	56,000	By Trade Payables $\left(\frac{1,00,000}{100} \times 16\right)$	16,000
		By Balance c/d (Bal. fig.)	33,000
	57,000		57,000

(ii) Balance Sheet as on 31st March, 2012

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	3,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	1,00,000
Total		4,00,000
II. Assets		
(1) Non-current assets		
Fixed assets		
(a) Tangible assets** (W.N.2)		2,52,000

** It is assumed that fixed assets given in the balance sheet of Cyber Ltd. comprises of tangible fixed assets only.

(b) Intangible assets	3	8,000
(2) Current assets		
(a) Inventories		47,000
(b) Trade receivables		60,000
(c) Cash and cash equivalents		33,000
Total		4,00,000

Notes to Accounts

		₹	
1.	Share Capital		
	Authorised share capital		
	30,000 equity shares of ₹ 10 each	3,00,000	
	Issued and Subscribed		
	30,000 shares of ₹ 10 each fully paid up		3,00,000
	(out of the above, 24,400 (W.N.4) shares have been issued for consideration other than cash)		
2.	Long Term Borrowings		
	Secured		
	8% Debentures		1,00,000
3.	Intangible assets		
	Goodwill		8,000

Working Notes:

1. Calculation of Purchase consideration

	₹
Payment to preference shareholders	
5,000 equity shares @ ₹ 10	50,000
For arrears of dividend: (₹ 12,000 x 5 shares / ₹100) @ ₹ 10	6,000
Payment to equity shareholders	
(24,000 shares x 1/3) @ ₹ 10	80,000
Total purchase consideration	1,36,000

2. **Calculation of fair value at which fixed assets have been acquired by Mahal Ltd.**

Since, the question states that "balance of purchase consideration is being attributed to fixed assets", it is implied that the amount of purchase consideration is equal to the fair value at which the net assets have been acquired.

Therefore, the difference of fair value of net assets (excluding fixed assets) and the purchase consideration is the fair value at which the fixed assets have been acquired.

		₹
Purchase consideration / Net assets		1,36,000
Add: Liabilities:		
8% Debentures		1,08,000
Trade Payables $\left(\frac{1,00,000}{100}\times 16\right)\times\left(\frac{1,00,000}{100}\times 10\times 10\right)$		1,16,000
		3,60,000
Less: Stock ₹ (50,000- 3,000)	47,000	
Debtors	60,000	
Bank	1,000	(1,08,000)
Fair value at which fixed assets has been acquired		2,52,000

3. **Preference shareholders' Account**

	₹		₹
To Equity Shares in Mahal Ltd.	56,000	By Preference Share capital	50,000
		By Realisation (Bal. fig.)	6,000
	56,000		56,000

4. **Calculation of number of Equity shares issued to public**

	Number of shares	
Authorised equity shares		30,000
Less: Equity shares issued for		
Interest accrued on debentures	800	

Trade Payables of Cyber Ltd. $\left(\frac{1,00,000}{100} \times 10 \text{ shares}\right)$	10,000	
Preference shareholders of Cyber Ltd.	5,000	
Arrears of preference dividend $\left(\frac{12,000}{100} \times 5\right)$	600	
Equity shareholders of Cyber Ltd. $\left(\frac{24,000}{3}\right)$	8,000	(24,400)
Number of equity shares issued to public at par for cash		5,600

10. In the books of Star Ltd.

Liquidator's Statement of Account

Receipts			₹	Payment		₹
To	Cash at Bank		1,25,000	By	Liquidators' expenses	10,000
To	Realisation of Assets			By	Liquidator's Commission @ 2%	
	Machinery		4,15,000		on ₹ 8,75,000	17,500
	Furniture		20,000	By	Preferential creditors:	
	Stock	2,75,000			Income-tax payable	25,000
	Less:Secured bank loan	(2,50,000)	25,000	By	Unsecured creditors	8,75,000
				By	Preference	
	Debtors		5,75,000		shareholders:	
To	Call money on 4,500 equity				2,500, 6% preference	
	shares @ ₹ 15 per share (W.N.2)		67,500		shares of ₹ 100 fully paid	2,50,000
				By	Final Payment to equity shareholders:	
					5,000 equity shares of ₹ 100 each fully paid up @ ₹ 10 per share (W.N.2)	50,000
			12,27,500			12,27,500

Working Notes:

(1) Deficiency/Surplus to equity shareholders

	₹
Total of payment side excluding final payment to equity shareholders	11,77,500

Less: Total of receipts side excluding call money	11,60,000
Deficit	(17,500)
Add: Notional call on 4,500 equity shares @ ₹ 25 each	1,12,500
Notional Surplus	95,000
Notional surplus per share ₹ $\frac{95,000}{9,500}$ = ₹ 10	

(2) Call money of partly paid up shares and final payment of fully paid up shares:

So 4,500 partly paid up equity shareholders should be called @ ₹ 15 per share (i.e. ₹25 – ₹10).

5,000 fully paid up equity shareholders will get final payment @ ₹10 per share from the net proceeds of call on partly paid up shares

11. Magic Insurance Company (Abstract showing the amount of claims)

Net Claims incurred

		₹
Claims paid on direct business ₹ (35,30,000 + 38,000 + 42,000)		36,10,000
Add: Re-insurance	8,20,000	
Add: Outstanding as on 31.3.2012	87,000	
Less: Outstanding as on 1.4.2011	(58,000)	8,49,000
		44,59,000
Less : Claims received from re-insurance	3,20,000	
Add: Outstanding as on 31.3.2012	1,42,000	
Less: Outstanding as on 1.4.2011	(85,000)	(3,77,000)
		40,82,000
Add : Outstanding direct claims at the end of the year		8,75,000
		49,57,000
Less : Outstanding claims at the beginning of the year		(8,23,000)
Net claims incurred		41,34,000

Note: Claims include specific claims settlement cost but not expenses of management.

12. (a) Calculation of Unexpired Discounts or Rebate on Bills Discounted

Date of Bills	Date of Maturity including three days of grace	No. of days after March 31,2012	Amount ₹	Rate of discount % p.a.	Total Annual Discount	Proportionate Discount for days after 31st March
2012	2012					
January 13	May 16	46	7,50,000	12	90,000	11,342 $\left(90{,}000\times\frac{46}{365}\right)$
February 17	May 20	50	6,00,000	10	60,000	8,219 $\left(60{,}000\times\frac{50}{365}\right)$
March 6	July 9	100	4,00,000	11	44,000	12,055 $\left(44{,}000\times\frac{100}{365}\right)$
March 16	May 19	49	2,00,000	10	20,000	2,685 $\left(20{,}000\times\frac{49}{365}\right)$
			19,50,000			34,301

So, unexpired discounts on 31st March, 2012, ₹ 34,301.

The amount to be credited to Profit and Loss Account is ascertained from the Discount Account as follows:

Discount Account

		₹			₹
31.3.12	To Profit and Loss A/c (Bal. fig.) (transferred)	1,41,700	1.4.11	By Rebate on Bills Discounted	30,501
31.3.12	To Rebate on Bills Discounted	34,301	31.3.12	By Sundries (Discount received)	1,45,500
		1,76,001			1,76,001

Journal Entries

2012		₹	₹
March 31	Rebate on Bills Discounted A/c Dr.	30,501	

	To Discount Account			30,501
	(Being unexpired discount brought forward from the previous year, credited to Discount Account)			
March 31	Discount Account	Dr.	34,301	
	To Rebate on Bills Discounted Account			34,301
	(Being provision for unexpired discount required at the end of the year)			
March 31	Discount Account	Dr.	1,41,700	
	To Profit and Loss Account			1,41,700
	(Being discount earned for the year 2011-12 transferred)			

(b) Good Bank Ltd.

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

(₹ in '000)

	Particulars	*Schedule No.*	*Year ended on 31st March, 2012*
I.	Income		
	Interest earned	13	7,500.00
	Other income	14	100.00
	Total		7,600.00
II.	Expenditure		
	Interest expended	15	2,000.00
	Operating expenses	16	2,500.00
	Provisions and contingencies (W.N. 3)		2,075.20
	Total		6,575.20
III.	Profit/Loss		
	Net profit/(loss) for the year		1,024.80
	Profit/(loss) brought forward		Nil
	Total		1,024.80
IV.	Appropriations		
	Transfer to statutory reserve @ 25%		256.20
	Balance carried to balance sheet		768.60
	Total		1,024.80

Working Notes:

1. Calculation of Provisions and Contingencies

Assets	Amount	*% of Provision*	*Provision*
	(₹ in '000)		*(₹ in '000)*
Standard assets	3,000	0.40	12
Sub-standard assets	1,200	15	180
Doubtful assets (unsecured)	500	100	500
Doubtful assets – covered by security			
Less than 1 year	80	25	20
More than 1 year but less than 3 years	200	40	80
More than 3 years	200	100	200
Loss assets	400	100	400
Total provision			1,392

2. Calculation of provision on tax = 40% (Total income – Total expenditure)

= 40% of ₹ [(7,600 – (2,000 + 2,500 + 1,392)]

= 40% of ₹ 1,708

= ₹ 683.20

3. Total provisions and contingencies = ₹ 1,392 + ₹ 683.20= ₹ 2,075.20

13. Balance Sheet of XYZ Electric Supply Ltd. as on March 31, 2012

			Particulars	Note No	₹ ('000)
			Equity and Liabilities		
1			Shareholders' funds		
	a		Share capital	1	150,00
	b		Reserves and Surplus	2	65,00
2			Non-current liabilities		
	a		Long-term borrowings	3	95,00
3			Current liabilities		-
	a		Trade Payables		15,00
	b		Other current liabilities	4	30,00
			Total		355,00
			Assets		-
1			Non-current assets		-
	a		Fixed assets		-

		i	Tangible assets	5	269,00
		ii	Intangible assets		5,00
	b		Non-current Investment	6	30,00
2			Current assets		-
	a		Inventories		29,00
	b		Trade receivables		16,00
	c		Cash and cash equivalents		6,00
			Total		355,00

Notes to financial statements

			₹ ('000)
1	Share Capital		
	Issued & subscribed		
	Equity share capital		
	15,00,000 Equity shares of ₹ 10 each		150,00
2	Reserves and Surplus		
	Capital reserve		18,00
	Contingency Reserve		30,00
	Balance of net revenue account		17,00
	Total		65,00
3	Long-term borrowings		
	Secured		
	14% Debentures		60,00
	11% Term Loan (considered secured)		35,00
	Total		95,00
4	Other Current liabilities		-
	Proposed dividend		30,00
	Total		30,00
5	Tangible assets		
	Land		31,00
	Building		85,00
	Plant & Machinery		
	Power Plant	150,00	
	Transformers	41,00	

	Public Lamps	8,00	199,00
	Electrical Instruments		14,00
			32,900
	Less: Depreciation fund		(60,00)
	Total		269,00
6	Non-current Investment		
	Contingency Reserve Investment (assumed as non-current item)		30,00

14. Departmental Trading and Profit and Loss Account

for six months ending 31.3.2012

Particulars	X	Y	Z	Particulars	X	Y	Z
	₹	₹	₹		₹	₹	₹
To Purchases	70,350	45,300	32,200	By Sales	75,000	50,000	12,500
To Gross Profit c/d	34,700	14,850	2,600	By Closing Stock	30,050	10,150	22,300
	1,05,050	60,150	34,800		1,05,050	60,150	34,800
To Salaries & Wages	6,000	12,000	6,000	By Gross Profit b/d	34,700	14,850	2,600
To Rent	4,700	4,700	1,500	By Net Loss			
To Net Profit				(Departmental)	-	1,850	4,900
(Departmental)	24,000						
	34,700	16,700	7,500		34,700	16,700	7,500

General Profit and Loss Account

for six months ending 31.3.2012

Particulars	₹	*Particulars*	₹
To Profit & Loss A/c (Dept. Y)	1,850	By Profit & Loss A/c (Dept. X)	24,000
To Profit & Loss A/c (Dept. Z)	4,900		
To Profit (to be transferred to Balance sheet)	17,250		
	24,000		24,000

Working Notes:

(i) Salaries and wages are to be allocated first between show room and; workshop in the ratio of 3:1 i.e. ₹18,000 and ₹ 6,000. Work shop salaries are to be charged to Dept. Z.

(ii) Since Dry cleaners and Dumpsters are sold at show room, salaries are to be allocated to Dept. 'X' and Dept. 'Y' respectively in the ratio of 1 : 2.

(iii) Rent to workshop at ₹ 250 p.m. for six months, ₹ 1,500 is to be charged to Dept. 'Z' First and the balance ₹ 9,400 is to be divided equal between Dept. 'X' and 'Y'.

15. Branch Account

	₹	₹		₹	₹
To Goods sent to Branch Account		52,65,750	By Bank-		
To Bank -			Sales	18,76,050	
Rent Salaries	1,08,000 2,70,000		Collection from debtors	23,55,000	42,31,050
Other expenses	52,500	4,30,500	By Goods sent to Branch Account (Loading)		10,53,150
To Branch Stock Reserve		1,47,150	(52,65,750x25/125)		
(7,35,750x25/125)			By Abnormal Loss		
To H.O. Profit and Loss Account			-Cost of spoiled cloth (7,500x100/125)		6,000
-Transfer of profit		4,50,450	By Balance c/d		
			Branch Stock	7,35,750	
			Branch Debtors	2,67,900	10,03,650
		62,93,850			62,93,850

Working Notes:

1. Memorandum Branch Stock Account

	₹	₹		₹
To Goods sent to Brach:	.		By Cash - Sales	18,76,050
Cost	42,12,600		By Credit Sales	26,61,450
Add: Loading @ 25%	10,53,150	52,65,750	By Abnormal Loss - Spoiled cloth	7,500

To Returns from Debtors		15,000	By Balance c/d (Balancing figure)	7,35,750
		52,80,750		52,80,750

2. Memorandum Branch Debtors Account

	₹		₹
To Credit Sales	26,61,450	By Cash collected	23,55,000
		By Discount allowed	23,550
		By Returns	15,000
		By Balance c/d (Balancing figure)	2,67,900
	26,61,450		26,61,450

16. In the books of English Firm (Head Office in New York)

Chennai Branch Profit and Loss Account for the year ended 31st December, 2012

	$		$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		23,625

Balance Sheet of Chennai Branch as on 31st December, 2012

Liabilities	$	$	*Assets*	$
Head Office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000

Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		44,400

Working Note:

Require for calculation of Exchange Translation Loss
Chennai Branch Trial Balance (converted in $)
as on 31st December, 2012

	Dr.	*Cr.*	*Conversion*	*Dr.*	*Cr.*
	₹	₹	*rate*	*($)*	*($)*
Stock on 1st Jan., 2012	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	36,31,400		73,775	73,775

17. (a) As per para 13 of AS 4 "Contingencies and Events Ocurring After the Balance Sheet Date", assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.

In the given case, company should make the provision for doubtful debts, as legal suit has been filed on 31st March, 2012 and the chances of recovery from the suit are not good. Though, the actual result of legal suit will be known in future yet situation of non-recovery from the debtors exists before finalisation of financial statements. Therefore, provision for doubtful debts should be made for the year ended on 31st March, 2012.

(b) AS 5 (Revised) 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" states that a change in an accounting policy should be made only if

a. It is required by statute, or

b. for compliance with an accounting standard, or

c. if it is considered that the change would result in a more appropriate presentation of the financial statements of an enterprise.

Therefore the change in the method of stock valuation is justified in view of the fact that the change is in line with the recommendations of AS 2 (Revised) 'Valuation of Inventories' and would result in more appropriate preparation of the financial statements. Accordingly, cost formula used for inventory valuation will exclude the delayed clearing charges being in the nature of interest. Due to change in the cost formula, the value of inventory and resulting profit will decrease by ₹ 8.60 lakhs. Appropriate disclosures should be made in the financial statements for this change.

18. (a) The financial statements of an integral foreign operation (dependent foreign branches) should be translated using the principles and procedures described in paragraphs 8 to 16 of AS 11 "The Effects of Changes in Foreign Exchange Rates" (Revised 2003). The individual items in the financial statements of a foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself.

Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of transaction. For practical reasons, a rate that approximates the actual rate at the date of transaction is often used, for example, an average rate for a week or a month may be used for all transactions in each foreign currency during the period. The foreign currency monetary items (for example cash, receivables, payables) should be reported using the closing rate at each balance sheet date. Non-monetary items (for example, fixed assets, inventories, investments in equity shares) which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange date at the date of transaction. Thus the cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If the fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realizable value is determined which is generally closing rate.

Exchange difference arising on the translation of the financial statements of integral foreign operation should be charged to profit and loss account. Thus, the treatment by the management of translating all assets and liabilities; income and expenditure items in respect of foreign branches at the prevailing rate at the year end and also the treatment of resultant exchange difference is not in consonance with AS 11 (Revised 2003).

(b) Journal Entries

Year	*Particulars*		*₹ in lakhs (Dr.)*	*₹ in lakhs (Cr.)*
1	Fixed Asset Account	Dr.	20	
	To Bank Account			20
	(Being fixed asset purchased)			
	Bank Account	Dr.	8	
	To Fixed Asset Account			8
	(Being grant received from the government reduced the cost of fixed asset)			
	Depreciation Account (W.N.1)	Dr.	2	
	To Fixed Asset Account			2
	(Being depreciation charged on Straight Line method (SLM))			
	Profit & Loss Account	Dr.	2	
	To Depreciation Account			2
	(Being depreciation transferred to Profit and Loss Account at the end of year 1)			
2	Fixed Asset Account	Dr.	5	
	To Bank Account			5
	(Being government grant on asset partly refunded which increased the cost of fixed asset)			
	Depreciation Account (W.N.2)	Dr.	3.67	
	To Fixed Asset Account			3.67
	(Being depreciation charged on SLM on revised value of fixed asset prospectively)			
	Profit & Loss Account	Dr.	3.67	
	To Depreciation Account			3.67
	(Being depreciation transferred to Profit and Loss Account at the end of year 2)			

Working Notes:

1. Depreciation for Year 1

	₹ in lakhs
Cost of the Asset	20
Less: Government grant received	(8)
	12

Depreciation $\left[\frac{12-4}{4}\right]$	2

2. Depreciation for Year 2

	₹ *in lakhs*
Cost of the Asset	20
Less: Government grant received	(8)
	12
Less: Depreciation for the first year $\left[\frac{12-4}{4}\right]$	2
	10
Add: Government grant refundable	5
	15
Depreciation for the second year $\left[\frac{15-4}{3}\right]$	3.67

19 (a) AS 16 "Borrowing Costs", clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building upto the date of completion (January, 2012) i.e. ₹ 18 lakhs alone can be capitalized. It cannot be extended to ₹ 25 lakhs.

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

Where:

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

Gross investment = Minimum lease payments + Unguaranteed residual value

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

= [(₹ 8,00,000 × 5 years) + ₹ 1,60,000] + ₹ 1,40,000 = ₹ 43,00,000 (a)

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

Year	*MLP inclusive of URV* ₹	*Internal rate of return (Discount factor @ 15%)*	*Present Value* ₹
1	8,00,000	0.8696	6,95,680
2	8,00,000	0.7561	6,04,880
3	8,00,000	0.6575	5,26,000
4	8,00,000	0.5718	4,57,440
5	8,00,000	0.4972	3,97,760
	1,60,000 (GRV)	0.4972	79,552
	41,60,000		27,61,312 (i)
	1,40,000 (URV)	0.4972	69,608 (ii)
	43,00,000	(i)+ (ii)	28,30,920(b)

Unearned Finance Income (a) - (b) = ₹ 43,00,000 – ₹ 28,30,920= ₹ 14,69,080.

20 (a) Earnings for the year = No. of Shares x Basic EPS

= 30,00,000 shares x ₹ 5 per share = ₹1,50,00,000

Adjusted net profit for the current year = Earnings for the year + Interest on debentures net of tax = 1,50,00,000 + (6,00,000 – 1,80,000) = ₹ 1,54,20,000

No. of equity shares resulting from conversion of debentures

= 50,000 x 10 shares = 5,00,000 shares

Total No. of equity shares for diluted EPS= 30,00,000 + 5,00,000 = 35,00,000 shares
Diluted earnings per share = ₹ 1,54,20,000/ 35,00,000 shares = ₹ 4.4 per share.

(b) As per para 14 of AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognised when

(a) an enterprise has a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognised.

If these conditions are not met, no provision should be recognised.

In the given situation the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. The company will disclose the same as contingent liability by way of the following note:

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed patents and is seeking damages of ₹ 900 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company".