

**PAPER – 5 : ADVANCED ACCOUNTING**

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

**A. Applicable for November, 2013 examination**

**(i) Revision in the Criteria for classifying Level II Non-Corporate Entities**

Due to recent changes in the enhancement of tax audit limit, the Council of the ICAI has recently decided to change the 1st criteria of Level II Non-Corporate Entities i.e. determination of SME on turnover basis from ₹ 40 lakhs to ₹ 1 Crore vide announcement "Revision in the Criteria for classifying Level II Non-Corporate Entities" issued by ICAI on 7<sup>th</sup> March, 2013. This revision is applicable with effect from the accounting year commencing on or after April 1, 2012.

**(ii) Presentation of Foreign Currency Monetary Item Translation Difference Account (FCMITDA)**

In the Revised Schedule VI format, no line item has been specified for the presentation of "Foreign Currency Monetary Item Translation Difference Account (FCMITDA)". Therefore, the Council of the Institute at its 324<sup>th</sup> meeting held on March 24-26, 2013 at New Delhi, decided that debit or credit balance in FCMITDA should be shown on the "Equity and Liabilities" side of the balance sheet under the head 'Reserves and Surplus' as a separate line item.

**(iii) Maintenance of Cash Reserve Ratio (CRR)**

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

**(iv) Review of the Prudential Guidelines on Restructuring of Advances by Banks/Financial Institutions**

Reserve Bank of India has reviewed the prudential guidelines on restructuring of advances by banks/ financial institutions vide circular no. DBOD.No.BP.BC.63/21.04.048/2012-13 applicable for all scheduled commercial banks excluding RRBs dated November 26, 2012 and has decided:

- i) To enhance the provisioning requirement for restructured accounts classified as standard advances from the existing 2.00 per cent to 2.75 per cent in the first two years from the date of restructuring. In cases of moratorium on

payment of interest/principal after restructuring, such advances will attract a provision of 2.75 per cent for the period covering moratorium and two years thereafter; and that

- ii) Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2.75 per cent in the first year from the date of upgradation instead of the existing 2.00 per cent.

In accordance with the above, loans to projects under implementation, when restructured due to change in the date of commencement of commercial operations (DCCO) beyond the original DCCO as envisaged at the time of financial closure and classified as standard advances would attract higher provisioning at 2.75 per cent as against the present requirement of 2.00 per cent as per the details given below:

*Infrastructure projects*

Particulars	Provisioning Requirement
If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond two years and upto four years or three years from the original DCCO, as the case may be, depending upon the reasons for such delay (Ref.: DBOD.No.BP.BC.85 /21.04.048/2009-10 dated March 31, 2010)	2.75 per cent – From the date of such restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.

*Non-infrastructure projects*

Particulars	Provisioning Requirement
If the revised DCCO is within six months from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond six months and upto one year from the original DCCO prescribed at the time of financial closure (Ref.: DBOD.No.BP.BC.85 /21.04.048/2009-10 dated March 31, 2010)	2.75 per cent – From the date of such restructuring for 2 years.

All other extant guidelines on Income Recognition, Asset Classification and Provisioning pertaining to advances will remain unchanged.

**(v) Clarification on Debenture Redemption Reserve (DRR)**

Ministry of Corporate Affairs vide Circular no. 04/2013 dated 11 February, 2013 has clarified the adequacy of DRR for various institutions/companies as follows:

All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures	Nil
Other Financial Institutions and NBFCs registered with the RBI under Section 45-IA of the RBI (Amendment) Act, 1997	
if debentures issued through public issue	25%
if privately placed debentures	Nil
Other companies including manufacturing and infrastructure companies (including listed and unlisted companies)	25%

Every company required to create/maintain DRR shall before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year.

**(vi) 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 28<sup>th</sup> 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.

**(vii) 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 29<sup>th</sup> 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 31<sup>st</sup> March, 2020 instead of 31<sup>st</sup> March, 2012.

**(viii) 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 29<sup>th</sup> December, 2011, inserted under-mentioned para 46A in AS 11 of the Companies (Accounting Standards) Rules, 2006,

"46A. (1) In respect of accounting periods commencing on or after the 1<sup>st</sup> 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 7<sup>th</sup> December, 2006 and amended vide notification number G.S.R. 212(E), dated the 27<sup>th</sup> March, 2008 and subsequently amended by No. G.S.R. 225(E) dated 31<sup>st</sup> March, 2009 and No. G.S.R. 378(E), dated 11<sup>th</sup> May, 2011.

**(ix) 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.

**(x) 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.

**B. Not applicable for November, 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 November, 2013 Examination.**

**PART – II : QUESTIONS AND ANSWERS****QUESTIONS****Partnership Accounts – Amalgamation of Partnership firms**

1. Vinod and Raj are partners of M/s Vinod and Co., sharing profits and losses in the ratio of 3 : 1 and Raj and Kumar are partners of M/s Raj & Co., sharing profits and losses in the ratio of 2: 1. On 31st March, 2013, they decide to amalgamate and form a new firm M/s VRK & Co., wherein Vinod, Raj and Kumar would be partners sharing profits and losses in the ratio of 3 :2 :1. The Balance Sheets of two firms on the above date are as under:

<i>Liabilities</i>	<i>Vinod &amp; Co.</i>	<i>Raj &amp; Co.</i>	<i>Assets</i>	<i>Vinod &amp; Co.</i>	<i>Raj &amp; Co.</i>
	₹	₹		₹	₹
Capitals:			Building	2,00,000	-
Vinod	9,60,000	-	Machinery	6,00,000	6,40,000
Raj	6,40,000	8,00,000	Furniture	80,000	24,000
Kumar	-	4,00,000	Stock	4,80,000	5,60,000
Reserves	2,00,000	6,00,000	Debtors	6,40,000	8,00,000
Creditors	4,80,000	4,64,000	Cash at Bank	1,20,000	3,60,000
Due to Vinod & Co.	-	4,00,000	Cash in hand	80,000	40,000

Bank Loan	3,20,000	-	Due from Raj & Co.	4,00,000	-
			Advances	-	2,40,000
	26,00,000	26,64,000		26,00,000	26,64,000

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

- Building of Vinod & Co., was valued at ₹ 4,00,000.
- Machinery of Vinod & Co., was valued at ₹ 9,00,000 and that of Raj & Co. at ₹ 8,00,000. All other assets and liabilities were taken over at book value.
- Goodwill of Vinod and Co., valued at ₹ 2,00,000 and Raj & Co. ₹ 1,64,000 but the same will not appear in the books of VRK & Co.
- Partners of the new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.

You are required to pass journal entries in the books of M/s VRK & Co. and prepare the Balance Sheet as at 31.3.2013.

#### Dissolution of a partnership firm

- X, Y and Z were in partnership sharing profits and losses in the ratio of 3:2:1 respectively. They decided to dissolve the partnership firm on 31.3.2013, when the Balance Sheet of the firm appeared as under:

#### Balance Sheet of the firm as on 31.3.2013

Liabilities	₹	₹	Assets	₹
Sundry Creditors		8,50,500	Plant and Machinery	15,95,700
Bank Overdraft		9,09,675	Furniture	96,975
Joint Life Policy Reserve		3,98,250	Stock	3,55,050
Loan from Mrs. X		2,25,000	Sundry Debtors	8,01,000
Capital Accounts:			Joint Life Policy	3,98,250
X	6,30,000		Commission Receivable	2,10,825
Y	3,37,500		Cash in Hand	73,125
Z	<u>1,80,000</u>	<u>11,47,500</u>		
		<u>35,30,925</u>		<u>35,30,925</u>

The following details are relevant for dissolution :

- The joint life policy was surrendered for ₹ 3,48,750.
- X took over plant and machinery for ₹ 13,50,000.

- (iii) X also agreed to discharge bank overdraft and loan from Mrs. X.
- (iv) Furniture and stocks were divided equally between X and Y at an agreed valuation of ₹ 5,40,000.
- (vi) Sundry debtors were assigned to firm's creditors in full satisfaction of their claims.
- (vi) Commission receivable was received in time.
- (vii) A bill discounted was subsequently returned dishonoured and proved valueless ₹ 46,125 (including ₹ 750 noting charges).
- (viii) X paid the expenses of dissolution amounting to ₹ 27,000.

You are required to prepare:

- (i) Realisation Account
- (ii) Partners' Capital Accounts and
- (ii) Cash Account.

#### Company Accounts – Schedule VI

3. (a) Alpha Ltd. provides you the following information:

- 1. Raw material stock holding period: 3 months
- 2. Work-in-progress holding period: 1 month
- 3. Finished goods holding period: 5 months
- 4. Debtors collection period: 5 months

You are required to compute the operating cycle of Alpha Ltd. What would happen if the trade payables of the Company are paid in 13 months—whether these should be classified as current or non-current liability?

- (b) The management of Loyal Ltd. contends that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in process would be more or less the same. Accordingly, the management had not separately disclosed work in process in its financial statements. Comment in line with Revised schedule VI.

#### Employee Stock Option Plans

4. At the beginning of year 1, an enterprise grants 10,000 stock options to a senior executive, conditional upon the executive remaining in the employment of the enterprise until the end of year 3. The exercise price is ₹ 40. However, the exercise price drops to ₹ 30 if the earnings of the enterprise increase by at least an average of 10 per cent per year over the three-year period.

On the grant date, the enterprise estimates that the fair value of the stock options, with an exercise price of ₹ 30, is ₹ 16 per option. If the exercise price is ₹ 40, the enterprise estimates that the stock options have a fair value of ₹ 12 per option. During year 1, the

earnings of the enterprise is 12 per cent, and the enterprise expects that earnings will continue to increase at this rate over the next two years. The enterprise, therefore, expects that the earnings target will be achieved, and hence the stock options will have an exercise price of ₹ 30. During year 2, the earnings of the enterprise is 13 per cent, and the enterprise continues to expect that the earnings target will be achieved.

During year 3, the earnings of the enterprise is only 3 per cent, and therefore the earnings target was not achieved. The executive completes three years' service, and therefore satisfies the service condition.

Because the earnings target was not achieved, 10,000 vested stock options have an exercise price of ₹ 40.

Calculate the amount to be charged to Profit and Loss Account every year on account of compensation expenses.

#### Buy –Back of Shares

5. The following was the summarized balance sheet of Gamma Ltd. as on 31<sup>st</sup> March, 2013:

Equity & liability	(₹ in lakhs)	Assets	(₹ in lakhs)
Authorised capital:		Fixed assets	56,000
Equity shares of ₹ 10 each	<u>40,000</u>	Investments	12,000
Issued capital:		Cash at Bank	6,600
Equity Shares of ₹ 10 each Fully Paid Up	32,000	Trade receivables	33,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	10,000		
Reserves & Surplus:			
Capital Redemption Reserve	4,000		
Securities Premium	3,200		
General Reserve	24,000		
Profit & Loss Account	1,200		
9% Debentures	20,000		
Trade payables	<u>13,200</u>		
	<u>1,07,600</u>		<u>1,07,600</u>

On 1st April, 2013, the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹ 20 per Share. In order to make Cash available, the Company sold all the Investments for ₹ 12,600 Lakhs and raised a Bank Loan amounting to ₹ 8,000 lakh on the security of the Company's Plant.



Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium will be utilized to the maximum extent allowed by law.

### Underwriting of Shares

6. Moon Ltd. issued 2,00,000 equity shares of ₹ 10 each at par. The entire issue was underwritten as follows:

Big – 1,20,000 shares (Firm underwriting 16,000 shares)

Small – 60,000 shares (Firm underwriting 20,000 shares)

Fat- 20,000 shares (Firm underwriting 4,000 shares)

Total applications including firm underwriting were received for 1,60,000 shares.

The marked applications excluding firm underwriting were as follows:

Big- 40,000 shares; Small- 28,000 shares; Fat-12,000 shares.

The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten. You are required to determine the liability of each underwriter, if the benefit of Firm Underwriting is given to Individual Underwriters.

### Redemption of Debentures

7. Noida Toll Bridge Corporation Ltd. (an infrastructure Company) issued 100 lakhs 10% Debentures of ₹ 100 each on 1<sup>st</sup> April, 2013 due for redemption on 31<sup>st</sup> March, 2014 at 10% Premium. How much minimum amount should be credited to Debenture Redemption Reserve as per the MCA clarification? Also state the amount required to be deposited / invested in the year of redemption. Record necessary entries for redemption of debentures.

### Amalgamation of companies

8. A Ltd. and B Ltd. decided to amalgamate as on 01.04.2013 Their summarised Balance Sheets as on 31.03.2013 were as follows: (₹ in '000)

Particulars	A Ltd.	B Ltd.
Source of Funds :		
Equity share capital (₹ 10 each)	150	140
9% Preference share Capital (₹ 100 each)	30	20
Investment allowance Reserve	5	2
Profit and Loss Account	4	6
10% Debentures	50	30
Trade Payables	25	15

Tax provision	7	4
Equity Dividend Proposed	<u>30</u>	<u>28</u>
Total	<u>301</u>	<u>245</u>
Application of Funds :		
Building	60	50
Plant and Machinery	80	70
Investments	40	25
Trade receivables	45	35
Inventories	36	40
Cash and Bank	<u>40</u>	<u>25</u>
Total	<u>301</u>	<u>245</u>

From the following information, you are required to prepare the Balance Sheet as on 01.04.2013 of a new company, C Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

- (i) 50% Debentures are to be converted into Equity Shares of the New Company (issued at ₹ 15).
- (ii) Fixed Assets of A Ltd. were valued at 10% above cost and that of B Ltd. at 5% above cost.
- (iii) 10% of trade receivables were doubtful for both the companies. Inventories to be carried at cost.
- (iv) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.
- (v) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹ 10 each of the new company at a premium of ₹ 5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

#### Internal Reconstruction of a Company

9. Given below is the draft balance sheet of Loser Ltd. as on 31.3.2013:

<i>Liabilities</i>	<i>Amount</i> ₹	<i>Assets</i>	<i>Amount</i> ₹
Authorised and issued share capital: 12,000, 7% Preference shares		Building at cost less depreciation	4,00,000

of ₹ 50 each (Note: Preference dividend is in arrear for five years)	6,00,000	Plant at cost less depreciation	2,68,000
15,000 Equity shares of ₹ 50 each	7,50,000	Trademarks and goodwill at cost	3,18,000
Bank Loan	5,73,000	Inventory	4,00,000
Trade payables	2,07,000	Trade receivables	3,28,000
Other liabilities	<u>35,000</u>	Profit and loss A/c	<u>4,51,000</u>
	<u>21,65,000</u>		<u>21,65,000</u>

The Company is now incurring losses and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

- The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 2.50 by cancellation of ₹ 47.50 per share. They have also agreed to subscribe for three new equity shares of ₹ 2.50 each for each equity share held.
- The preference shareholders have agreed to cancel the arrears of dividend and to accept for each ₹ 50 share, 4 new 5% preference shares of ₹ 10 each, plus 6 new equity shares of ₹ 2.50 each, all credited as fully paid.
- Lenders to the company for ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹ 10 each and 12,000 new equity shares of ₹ 2.50 each.
- The directors have agreed to subscribe in cash for 40,000, new equity shares of ₹ 2.50 each in addition to any shares to be subscribed by them under (a) above.
- Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the company.
- The equity share capital cancelled is to be applied:
  - to write off the debit balance in the profit and loss A/c; and
  - to write off ₹ 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

The nominal capital as reduced is to be increased to ₹ 6,50,000 for preference share capital and ₹ 7,50,000 for equity share capital. Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction.

### Liquidation of a company

10. The following was the draft Balance Sheet of Beta Limited as on 31.3.2013 :

<i>Liabilities</i>	₹	<i>Assets</i>	₹
<i>Share Capital:</i>		<i>Fixed Assets</i>	
14%, 1,60,000 cumulative preference		Land	1,60,000

shares of ₹ 100 each fully paid up	16,00,000	Buildings	6,40,000
32,000 equity shares of ₹ 100 each, ₹ 60 per share paid up	19,20,000	Plant and Machinery	21,60,000
<i>Reserves and Surplus</i>	NIL	Patents	1,60,000
<i>Secured Loans</i>		<i>Investments</i>	NIL
14% Debentures	9,20,000	<i>Current Assets</i>	
(Having a floating charge on all assets)		Inventory at cost	4,00,000
Interest accrued on above debentures	1,28,800	Sundry debtors	9,20,000
(Also having a floating charge as above)		Cash at bank	2,40,000
Loan on mortgage of land and building	6,00,000	<i>Profit and Loss A/c</i>	9,60,000
<i>Unsecured Loan</i>	NIL		
<i>Current liabilities</i>			
Sundry Creditors	4,71,200		
	56,40,000		56,40,000

On 31.3.2013 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Sundry creditors include preferential creditors amounting to ₹ 1,20,000.

The assets realised the following sums:

Land ₹ 3,20,000; Buildings ₹ 8,00,000; Plant and machinery ₹ 20,00,000; Patent ₹ 2,00,000; Inventory ₹ 6,40,000; Sundry debtors ₹ 8,00,000.

The expenses of liquidation amounted to ₹ 1,17,736. The liquidator is entitled to a commission of 2% on all assets realised (except cash at bank) and 2% on amounts among unsecured creditors other than preferential creditors. All payments were made on 30th June, 2013. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account.

### Financial Statements of Insurance Companies

11. The following particulars are presented to you by Perfect General Insurance Company regarding its fire insurance business for the year ended 31st March, 2013:

	₹	₹
Reserve for unexpired risk on 31 <sup>st</sup> March, 2012		
(i) 50% of net premium income for 2011-2012	3,12,500	
(ii) Additional reserve on 31 <sup>st</sup> March, 2012	<u>62,500</u>	3,75,000

Claims paid		1,75,000
Commission paid		50,000
Expenses of management		1,81,250
Reinsurance premium paid		43,750
Premiums received		8,00,000
Claims outstanding on 31 <sup>st</sup> March, 2012		62,500
Commission earned on reinsurance ceded		36,875
Estimated liability on 31 <sup>st</sup> March, 2013 in respect of claims due or intimated		1,25,000

Prepare the Fire Revenue Account for the year ended 31<sup>st</sup> March, 2013 in the format prescribed by Schedule B given under IDRA Regulations along with necessary schedules. On 31<sup>st</sup> March, 2013, the company decides to keep total additional reserve for unexpired risk equal to 10% of the net premium income for the year.

#### Financial Statements of Banking Companies

12. (a) Some of the items in the Trial Balance of Gain Bank Limited as on March 31, 2013 were as follows:

	₹ ('000)		₹ ('000)
Loans and Advances	35,75.00	Printing and Stationery	2.50
Current Accounts (including overdrafts of ₹ 7,50 thousands)	33,00.00	Interest on Saving Bank Deposits	37.50
Bills Discounted and Purchased	9,60.00	Auditor's Fees	2.50
Interest on Fixed Deposits	77.50	Directors' Fees	1.50
Interest on Loans	1,12.50	Interest on Overdrafts	47.50
Discount (subject to unexpired Discount ₹ 15 thousand)	100.50	Provision for Doubtful Debts: April 1, 2012	21.00
Interest on Cash Credits	52.50	Bad Debts	10.50
Commission earned	23.50	Provision for Income-tax: April 1, 2012	33.00
Loss on Investment	17.00	Income-tax paid for 2012-2013	27.00
Salaries and Allowances	41.00		

**Required:** Prepare the Profit and Loss Account of the Bank maintaining the provision for Income-tax at ₹ 42,000 and Provision for Doubtful Debts at ₹ 26,000 for the year ended March 31, 2013. Transfer 25% of profit to Statutory reserve.

- (b) A Commercial Bank gives the following details of its capital funds and intangible assets:

	(₹ in Crores)
Capital Funds:	
Paid up Equity Share Capital	750
Statutory Reserve	150
Securities Premium	150
Capital Reserve (out of which ₹ 40 Crore were due to revaluation of assets and balance due to sale)	90
Intangible assets	15

You are required to segregate the above capital funds into Tier I and Tier II capitals.

### Financial Statements of Electricity Company

13. From the following information calculate:

- Average capital cost
- Annual Depreciation as per Regulation 14 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009.

Information:

- Date of commercial operation or COD = 1<sup>st</sup> April, 2010
- Approved opening Capital cost as on 1-4-2010 = ₹ 2,84,330.74
- Consider weighted average rate of depreciation of 5.28%
- Details of allowed additional capital expenditure, is as follows:

	2010-11	2011-12	2012-13	2013-14
	₹	₹	₹	₹
Additional capital expenditure (allowed above) (B)	19,844.58	5,573.3	3,867.08	3,015.70

### Departmental Accounts

14. M/s Omega is a departmental store having three departments X, Y and Z. The information regarding three departments for the year ended 31<sup>st</sup> March, 2013 are given below:

	X	Y	Z
	₹	₹	₹
Opening Stock	36,000	24,000	20,000
Purchases	1,32,000	88,000	44,000
Debtors at end	15,000	10,000	10,000

Sales	1,80,000	1,35,000	90,000
Closing stock	45,000	17,500	21,000
Value of furniture in each department	20,000	20,000	10,000
Floor space occupied by each department (in sq. ft.)	3,000	2,500	2,000
Number of employees in each Department	25	20	15
Electricity consumed by each department (in units)	300	200	100

The balances of other revenue items in the books for the year are given below:

	Amount (₹)
Carriage inwards	3,000
Carriage outwards	2,700
Salaries	48,000
Advertisement	2,700
Discount allowed	2,250
Discount received	1,800
Rent, Rates and Taxes	7,500
Depreciation on furniture	1,000
Electricity expenses	3,000
Labour welfare expenses	2,400

You are required to prepare Departmental Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2013 after providing provision for Bad Debts at 5%.

### Branch Accounting

15. (a) M/s X has a branch at Delhi and the goods are invoiced to branch at a profit of 20% on invoice price. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the branch. Branch expenses directly paid by M/s X on behalf of Delhi branch amounted to ₹ 20,000. Following information is available of the transactions at Delhi branch for the year ended 31<sup>st</sup> December, 2012:

	As on 1.1.2012	As on 31.12.2012
	₹	₹
Stock, at invoice price	80,000	1,00,000
Debtors	24,000	22,000
Petty cash	3,000	5,000

Transactions during the year ended 31 <sup>st</sup> December, 2012:	₹
Goods sent to branch, at invoice price	8,40,000
Goods returned by branch to head office, at invoice price	30,000
Cash sales	3,10,000
Credit sales	3,60,000
Cash sent for petty expenses	12,000
Bad debts at Delhi branch	2,000
Goods returned by debtors	2,000

You are required to prepare Delhi Branch account (on cost basis) in the books of M/s X under Debtors System.

- (b) ABC Ltd. has head office at Delhi (India) and branch at New York (U.S.A). New York branch is an integral foreign operation of ABC Ltd. New York branch furnishes you with its trial balance as on 31<sup>st</sup> March, 2013 and the additional information given thereafter:

	<i>Dr. (\$)</i>	<i>Cr. (\$)</i>
Stock on 1st April, 2012	150	–
Purchases and sales	400	750
Sundry Debtors and creditors	200	150
Bills of exchange	60	120
Sundry expenses	540	–
Bank balance	210	–
Delhi head office A/c	–	540
	1,560	1,560

The rates of exchange may be taken as follows:

- on 1.4.2012 @ ₹ 40 per US \$
- on 31.3.2013 @ ₹ 42 per US \$
- average exchange rate for the year @ ₹ 41 per US \$.

New York branch account showed a debit balance of ₹ 22,190 on 31.3.2013 in Delhi books and there were no items pending reconciliation.

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

#### Framework for Preparation and Presentation of Financial Statements

16. (a) Mohan started a business on 1<sup>st</sup> April 2012 with ₹ 12,00,000 represented by 60,000



units of ₹ 20 each. During the financial year ending on 31<sup>st</sup> March, 2013, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 2012-13 if Financial Capital is maintained at historical cost.

### Accounting Standards

#### AS 4

- (b) During the year 2012-2013, Raj Ltd. was sued by a competitor for ₹ 15 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Raj Ltd. provided for a sum of ₹ 10 lakhs in its financial statements for the year ended 31<sup>st</sup> March, 2013. On 18<sup>th</sup> May, 2013, the Court decided in favour of the party alleging infringement of the trademark and ordered Raj Ltd. to pay the aggrieved party a sum of ₹ 14 lakhs. The financial statements were prepared by the company's management on 30<sup>th</sup> April, 2013, and approved by the board on 30<sup>th</sup> May, 2013. Should Raj Ltd. adjust its financial statements for the year ended 31<sup>st</sup> March, 2013?

#### AS 5

17. (a) Tiger Motor Car Limited signed an agreement with its employees union for revision of wages on 01.07.2012. The revision of wages is with retrospective effect from 01.04.2008. The arrear wages up to 31.3.2012 amounts to ₹ 40,00,000 and that for the period from 01.04.2012 to 01.07.2012 amount to ₹ 3,50,000. In view of the provisions of AS 5 "Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies", decide whether a separate disclosure of arrear wages is required while preparing financial statements for the year ending 31.3.2013.

#### AS 11

- (b) Explain briefly the accounting treatment needed in the following cases as per AS 11:
- (i) Sundry Debtors include amount receivable from Ted of U.S., ₹ 5,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at \$1 = ₹ 38.70.
- (ii) Long term loan taken from a U.S. Company, amounting to ₹ 60,00,000. It was recorded at \$1 = ₹ 35.60, taking exchange rate prevailing at the date of transactions.

Exchange rates at the end of the year were as under:

\$1 Receivable = ₹ 45.80

\$ 1 Payable = ₹ 45.90

## AS 12

18. (a) Yogya Ltd. received a specific grant of ₹ 300 lakhs for acquiring the plant of ₹ 1,500 lakhs during 2009-10 having useful life of 10 years. The grant received was credited to deferred income and shown in the balance sheet. During 2012-13, due to non-compliance of conditions laid down for the grant the company had to refund the grant to the Government. Balance in the deferred income on that date was ₹ 210 lakhs and written down value of plant was ₹ 1,050 lakhs.
- (i) What should be the treatment for the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2012-13 in profit and loss account? Assume that depreciation is charged on assets as per straight line method.
- (ii) What should be the treatment of the refund if grant was deducted from the cost of the plant during 2009-10?

## AS 16

- (b) X Limited began construction of a new plant on 1<sup>st</sup> April 2012 and obtained a special loan of 8 lakhs to finance the construction of the plant. The rate of interest on loan was 10 per cent per annum.

The expenditure that was made on the construction project of plant was as follows:

	₹
1-4-2012	10,00,000
1-8-2012	24,00,000
1-1-2013	4,00,000

The Company's other outstanding non - specific loan was ₹ 46,00,000 at an interest of 12 percent per annum.

The construction of the plant was completed on 31-3-2013. You are required to calculate the amount to be capitalized including amount of interest as per the provision of AS 16 'Borrowing Costs'.

## AS 19

19. (a) Classify the following into either operating or finance leases:
- (i) Ownership of an asset gets vested to the lessee at the end of lease term.
- (ii) Lessee has option to purchase the asset at lower than fair value, at the end of lease term.
- (iii) Economic life of the asset is 5 years, lease term is 4-1/2 years, but asset is not acquired at the end of lease term.
- (iv) Present value (PV) of Minimum lease payments (MLP) = "X", Fair value of the asset is Y.

- (v) Economic life is 5 years, lease term is 2 years, but the asset is of a special nature, and has been procured only for use of lessee.

**AS 20**

- (b) Explain the concept of 'weighted average number of equity shares outstanding during the period'. State how would you compute, based on AS-20, the weighted average number of equity shares in the following case:

		No. of shares
1 <sup>st</sup> April, 2012	Balance of equity shares	7,20,000
31 <sup>st</sup> August, 2012	Equity shares issued for cash	2,40,000
1 <sup>st</sup> February, 2013	Equity shares bought back	1,20,000
31 <sup>st</sup> March, 2013	Balance of equity shares	8,40,000

**AS 26**

20. (a) A Company had deferred research and development cost amounting ₹ 225 Lakhs. Sales expected in the subsequent years are as under:

Years	Sales (₹ in lakhs)
1	600
2	450
3	300
4	150

You are asked to suggest how should research and development cost be charged to Profit and Loss Account assuming entire cost of ₹ 225 Lakhs is development cost. If at the end of 3<sup>rd</sup> year, it is felt that no further benefit will accrue in the 4<sup>th</sup> year, how the unamortized expenditure would be dealt with in the accounts of the company ?

**AS 29**

- (b) Shyam Ltd. (a Public Sector Company) provides consultancy and engineering services to its clients. In the year 2012-13, the Government has set up a commission to decide about the pay revision. The pay will be revised with effect from 1-1-2006 based on the recommendations of the commission. The company makes the provision of ₹ 680 lakhs for pay revision in the financial year 2012-2013 on the estimated basis as the report of the commission is yet to come. As per the contracts with the client on cost plus job, the billing is done on the actual payment made to the employees and allocated to jobs based on hours booked by these employees on each job.

The company gives the following disclosures in its notes to accounts:

"Salaries and benefits include the provision of ₹ 680 lakhs in respect of pay

revision. The amount chargeable from reimbursable jobs will be billed as per the contract when the actual payment is made". Comment.

The accountant feels that the company should also recognise the income by ₹ 680 lakhs in Profit and Loss Account as per the terms of the contract. Otherwise, it will be the violation of matching concept and it will lead to understatement of profit.

### SUGGESTED ANSWERS/HINTS

1.

#### Journal Entries

In the books of M/s VRK & Co.

Particulars		Dr. (₹)	Cr. (₹)
Goodwill A/c	Dr.	2,00,000	
Building A/c	Dr.	4,00,000	
Machinery A/c	Dr.	9,00,000	
Furniture A/c	Dr.	80,000	
Stock A/c	Dr.	4,80,000	
Debtors A/c	Dr.	6,40,000	
Cash at Bank A/c	Dr.	1,20,000	
Cash in hand A/c	Dr.	80,000	
Due from Raj & Co. A/c	Dr.	4,00,000	
To Creditors A/c			4,80,000
To Bank Loan A/c			3,20,000
To Vinod's Capital A/c			16,35,000
To Raj's Capital A/c			8,65,000
(Being the Assets and Liabilities of Vinod & Co. taken over)			
Goodwill A/c	Dr.	1,64,000	
Machinery A/c	Dr.	8,00,000	
Furniture A/c	Dr.	24,000	
Stock A/c	Dr.	5,60,000	
Debtors A/c	Dr.	8,00,000	
Cash at Bank A/c	Dr.	3,60,000	

Cash in hand A/c	Dr.	40,000	
Advances A/c	Dr.	2,40,000	
To Creditors A/c			4,64,000
To Due to Vinod & Co. A/c			4,00,000
To Raj's Capital A/c			14,16,000
To Kumar's Capital A/c			7,08,000
(Being the Assets and Liabilities of Raj & Co. taken over)			
Vinod's Capital A/c	Dr.	1,82,000	
Raj's Capital A/c	Dr.	1,21,333	
Kumar's Capital A/c	Dr.	60,667	
To Goodwill A/c			3,64,000
(Being Goodwill written off)			
Bank A/c	Dr.	7,39,667	
To Vinod's Capital A/c			6,77,000
To Kumar's Capital A/c			62,667
(Being the Cash brought in by Vinod and Kumar to make capitals proportionate)			
Raj's Capital A/c	Dr.	7,39,667	
To Bank A/c			7,39,667
(Being the excess capital withdrawn by Raj)			
Due to Vinod & Co. A/c	Dr.	4,00,000	
To Due from Raj & Co. A/c			4,00,000
(Being the elimination of mutual indebtedness of the merged firms Vinod & Co., and Raj & Co.)			

**Balance Sheet of M/s VRK & Co. as at 31<sup>st</sup> March, 2013**

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capitals:		Building	4,00,000
Vinod	21,30,000	Machinery	17,00,000
Raj	14,20,000	Furniture	1,04,000
Kumar	7,10,000	Stock	10,40,000
Creditors	9,44,000	Debtors	14,40,000

Bank Loan	3,20,000	Advances	2,40,000
		Cash at Bank	4,80,000
		Cash in hand	1,20,000
	55,24,000		55,24,000

**Working Notes:****1. Statement showing Computation of Purchase Consideration**

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

**2. Statement showing Computation of Proportionate Capitals**

<i>Particulars</i>	₹
M/s VRK & Co. (₹ 25,00,000+₹ 21,24,000)	46,24,000
Less: Goodwill Adjustment	(3,64,000)
Total Capital of new Firm	42,60,000

Vinod's proportionate Capital (₹ 42,60,000 x 3/6)	21,30,000
Raj's proportionate Capital (₹ 42,60,000 x 2/6)	14,20,000
Kumar's Proportionate Capital (₹ 42,60,000 x 1/6)	7,10,000
	42,60,000

### 3. Statement showing the Computation of Capital Adjustments

Particulars	Vinod	Raj	Kumar	Total
	₹	₹	₹	₹
Balance transferred from Vinod and Co. (W.N. 4)	16,35,000	8,65,000	-	25,00,000
Balance transferred from Raj and Co. (W.N.5)	-	14,16,000	7,08,000	21,24,000
	16,35,000	22,81,000	7,08,000	46,24,000
Less: Goodwill written off in the ratio of (3:2:1)	(1,82,000)	(1,21,333)	(60,667)	(3,64,000)
(a) Existing Capital	14,53,000	21,59,667	6,47,333	42,60,000
(b) Proportionate Capital (W.N. 2)	21,30,000	14,20,000	7,10,000	42,60,000
(c) Amount to be brought in (paid off) (a-b)	6,77,000	7,39,667	62,667	-

### 4. Capital Accounts (In the Books of M/s Vinod & Co.)

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

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

## 5. Capital Accounts (In the Books of M/s Raj &amp; Co.)

Particulars	Raj	Kumar	Particulars	Raj	Kumar
	₹	₹		₹	₹
To M/s VRK & Co (Transfer)	14,16,000	7,08,000	By Balance b/d	8,00,000	4,00,000
			By Reserve (2:1)	4,00,000	2,00,000
			By Goodwill (2:1)	1,09,333	54,667
			By Realisation A/c* -Profit (2:1)	1,06,667	53,333
	14,16,000	7,08,000		14,16,000	7,08,000

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

## 2. Realisation Account

	₹	₹		₹	₹
To Assets:			By Liabilities:		
Plant & Machinery		15,95,700	Sundry Creditors		8,50,500
Furniture		96,975	Joint Life Policy Reserve		3,98,250
Stock		3,55,050	By Cash A/c :		
Sundry Debtors		8,01,000	Joint Life Policy		3,48,750
Joint Life Policy		3,98,250	Commission Receivable		2,10,825
Commission Receivable		2,10,825	By X's Capital A/c:		
To X's Capital A/c:			Plant and Machinery	13,50,000	
Dissolution Expenses		27,000	Furniture & Stocks	2,70,000	16,20,000
To Cash A/c :			By Y 's Capital A/c:		
Bill dishonoured		46,125	Furniture & stocks		2,70,000
To Partners' Capital Accounts:					
(Profit on realisation)					
X	83,700				
Y	55,800				
Z	27,900	1,67,400			
		<u>36,98,325</u>			<u>36,98,325</u>



## Partner's Capital Accounts

	X	Y	Z		X	Y	Z
	₹	₹	₹		₹	₹	₹
To Realisation A/c:				By Balance b/d	6,30,000	3,37,500	1,80,000
Plant and Machinery	13,50,000	-	-	By Bank			
Furniture & Stocks	2,70,000	2,70,000		Overdraft A/c	9,09,675	-	
To Cash A/c (Bal. Fig.)	2,55,375	1,23,300	2,07,900	By Loan from Mrs. X A/c	2,25,000	-	
				By Realisation A/c: Dissolution Expenses	27,000	-	
				Profit on realisation	83,700	55,800	27,900
	18,75,375	3,93,300	2,07,900		18,75,375	3,93,300	2,07,900

## Cash Account

	₹		₹
To Balance b/d	73,125	By Realisation A/c:	
To Realisation A/c:		Bill dishonoured	46,125
Joint Life Policy	3,48,750	By Partners' Capital Accounts:	
Commission		X	2,55,375
Receivable A/c	2,10,825	Y	1,23,300
		Z	2,07,900
	6,32,700		6,32,700

**Note:** No entry is required regarding assignment of sundry debtors to sundry creditors in full satisfaction of their claims.

3. (a) According to Schedule VI "An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents".

Therefore, operating cycle of Alpha Ltd. will be computed as under:

Raw material stock holding period + Work-in-progress holding period + Finished goods holding period + Debtors collection period

$$= 3 + 1 + 5 + 5 = 14 \text{ months}$$

A Liability shall be classified as current when it is expected to be settled in the Company's normal operating cycle.

Since the operating cycle of Alpha Ltd. is 14 months, trade payables expected to be paid in 13 months should be treated as a current liability.

- (b) Revised schedule VI to the Companies Act, 1956 does not require to disclosed in the Statement of Profit and Loss, the amounts for which WIP have been completed at the beginning and at the end of the accounting period. Therefore, the non-disclosure in the financial statements by the company may not amount to violation of Revised Schedule VI if the differences between opening and closing WIP are not material.
4. Since the exercise price varies depending on the outcome of a performance condition which is not a market condition the effect of that performance condition (i.e. the possibility that the exercise price might be ₹ 40 and the possibility that the exercise price might be ₹ 30) is not taken into account when estimating the fair value of the stock options at the grant date. Instead, the enterprise estimates the fair value of the stock options at the grant date under each scenario and revises the transaction amount to reflect the outcome of that performance condition at the end of every year based on the information available at that point of time.

#### Calculation of compensation expenses to be charged every year

Year	Calculation	Compensation expenses for the period (₹)	Cumulative compensation expenses (₹)
1	10,000 options × ₹ 16 × 1/3	53,333	53,333
2	(10,000 options × ₹ 16 × 2/3) – ₹ 53,333	53,334	1,06,667
3	(10,000 options × ₹ 12 × 3/3) – ₹ 1,06,667	13,333	1,20,000

#### 5. Journal Entries

##### In the books of Gamma Ltd.

		Dr.	Cr.
		₹ in lakhs	
1	Bank A/c To Investments A/c To Profit and Loss A/c (Being Investments sold and profit being credited to Profit and Loss Account)	Dr. 12,600	12,000 600
2	10% Redeemable Preference Share Capital A/c	Dr. 10,000	

	Premium payable on Redemption of Preference Shares A/c	Dr.	1,000	
	To Preference Shareholders A/c			11,000
	(Being amount payable on redemption of Preference shares at a Premium of 10%)			
3	Securities Premium A/c	Dr.	1,000	
	To Premium payable on Redemption of Preference Shares A/c			1,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)			
4	Equity Share Capital A/c	Dr.	8,000	
	Premium payable on Buyback A/c	Dr.	8,000	
	To Equity Share buy back A/c			16,000
	(Being the amount due on buy-back)			
5	Securities Premium A/c (3,200 – 1,000)	Dr.	2,200	
	General Reserve A/c (balancing figure)	Dr.	5,800	
	To Premium payable on Buyback A/c			8,000
	(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves)			
6	Bank A/c	Dr.	8,000	
	To Bank Loan A/c			8000
	(Being Loan taken from Bank to finance Buyback)			
7	Preference Shareholders A/c	Dr.	11,000	
	Equity Shares buy back A/c	Dr.	16,000	
	To Bank A/c			27,000
	(Being payment made to Preference Shareholders and Equity Shareholders)			
8	General Reserve Account (10,000 + 8,000)	Dr.	18,000	
	To Capital Redemption Reserve Account			18,000
	(Being amount transferred to Capital Redemption Reserve to the extent of face value of preference shares redeemed and equity shares bought back)			

6. Statement Showing Liability of underwriters on the basis that 'The Benefit of Firm Underwriting is given to Individual Underwriters'.

	No. of shares			
	Big	Small	Fat	Total
Gross Liability	1,20,000	60,000	20,000	2,00,000
Less: Marked Applications	<u>(40,000)</u>	<u>(28,000)</u>	<u>(12,000)</u>	<u>(80,000)</u>
	80,000	32,000	8,000	1,20,000
Less: Unmarked applications (total application less firm underwriting less marked applications) in Gross Liability Ratio(i.e. 1,20,000 : 60,000 : 20,000)	<u>(24,000)</u>	<u>(12,000)</u>	<u>(4,000)</u>	<u>(40,000)</u>
	56,000	20,000	4,000	80,000
Less: Firm underwriting	<u>(16,000)</u>	<u>(20,000)</u>	<u>(4,000)</u>	<u>(40,000)</u>
Net liability	40,000	-	-	40,000
Add: Firm underwriting	<u>16,000</u>	<u>20,000</u>	<u>4,000</u>	<u>40,000</u>
Total liability of underwriters	<u>56,000</u>	<u>20,000</u>	<u>4,000</u>	<u>80,000</u>

7. (a) According to Section 117C of Companies Act, where a company issues debentures after the commencement of this Act, it shall create a debenture redemption reserve for the redemption of such debentures, to which adequate amounts shall be credited, out of its profits every year until such debentures are redeemed.

Ministry of Corporate Affairs has made a clarification on adequacy of Debenture Redemption Reserve (DRR) vide Circular no. 04/2013 dated 11 February, 2013.

As per this clarification, adequacy of Debenture Redemption Reserve (DRR) for debentures issued by companies including manufacturing and infrastructure companies is 25% of the value of debentures issued through public issue. Therefore minimum amount of DRR will be ₹ 25 crores i.e. 25% of 100 crores in the case of Noida Toll Bridge Corporation Ltd.

Further, every company required to create/maintain DRR shall before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following in any one or more of the following methods, namely:

- in deposits with any scheduled bank, free from charge or lien;
- in unencumbered securities of the Central Government or of any State Government;
- in unencumbered securities mentioned in clauses (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882;

- (d) in unencumbered bonds issued by any other company which is notified under clause (f) of section 20 of the Indian Trusts Act, 1882;

Accordingly, Noida Toll Bridge Corporation Ltd., have to deposit / invest ₹ 15 crores (100 × 15%) in any of the above mentioned categories.

**Journal Entries**  
**In books of Noida Toll Bridge Corporation Ltd.**

			₹ in crores	₹ in crores
1	10% Debentures A/c	Dr.	100	
	Debenture Redemption Premium* A/c	Dr.	10	
	To Debentureholders' A/c			110
	(Being the amount due to debenture holders on Redemption)			
2	Debentureholders' A/c	Dr.	110	
	To Investment A/c			15
	To Bank A/c			95
	(Being payment made to debenture holders out of own balance and from investments made specifically for this purpose)			
3	Debenture Redemption Reserve A/c	Dr.	25	
	To General Reserve			25
	(Being the transfer of DRR to General Reserve)			
4	Profit & Loss A/c	Dr.	10	
	To Debenture Redemption Premium A/c			10
	(Being the premium on redemption charged to Profit and loss Account)			

\* It has been assumed that the premium on redemption was not recorded at the time of issue of debentures.

8.

C Ltd.

**Balance Sheet as at 1.4.2013**

	Particulars	Notes No.	₹ in'000
1	<b>Equity and Liabilities</b>		
	<b>Shareholders' funds</b>		
a	Share capital	1	3,27,990
b	Reserves and Surplus	2	1,45,995

2	<b>Non-current liabilities</b>		
a	Long-term borrowings	3	40,000
3	<b>Current liabilities</b>		
a	Trade Payables	4	40,000
b	Short term provision	5	<u>11,000</u>
	<b>Total</b>		<u>5,64,985</u>
	<b>Assets</b>		
1	<b>Non-current assets</b>		
a	Fixed assets		
	Tangible assets	6	2,80,000
b	Non-current investments	7	65,000
	Other non-current assets	8	7,000
2	<b>Current assets</b>		
a	Inventory	9	76,000
b	Trade receivables	10	72,000
c	Cash and cash equivalents	11	64,985
	<b>Total</b>		<u>5,64,985</u>

**Notes to accounts**

		₹ in'000
1	<b>Share Capital</b>	
	Equity share capital	
	27,799 Equity shares of ₹ 10 each, fully paid up (W.N.2)	2,77,990
	Preference share capital	
	9% Preference share capital (Share of ₹ 100 each) (W.N.2)	50,000
		<u>3,27,990</u>
2	<b>Reserves and Surplus</b>	
	Securities premium (W.N.2)	1,38,995
	Investment allowance reserve (₹ 5,000+ ₹ 2,000)	7,000
		<u>1,45,995</u>
3	<b>Long-term borrowings</b>	
	Secured	

10% Debentures (50% of ₹ 80,000)	40,000
<b>4 Trade Payables</b> (₹ 25,000+ ₹ 15,000)	40,000
<b>5 Short term provisions</b>	
Provision for tax (₹ 7,000+ ₹ 4,000)	11,000
<b>6 Tangible assets</b>	
Building (₹ 66,000+ ₹ 52,500)	1,18,500
Plant and machinery (₹ 88,000+ ₹ 73,500)	<u>1,61,500</u>
	<u>2,80,000</u>
<b>7. Non- current investment</b>	
Investments (₹ 40,000+ ₹ 25,000)	65,000
<b>8 Other non-current asset</b>	
Amalgamation adjustment account	7,000
<b>9. Inventory</b>	
Stock (₹ 36,000+ ₹ 40,000)	76,000
<b>10 Trade receivables</b>	
Trade receivables [90% of (₹ 45,000+ ₹ 35,000)]	72,000
<b>11 Cash and cash equivalent</b>	
Cash and Bank (₹ 40,000+ ₹ 25,000 – ₹ 15)	64,985

**Working Notes:****1. Calculation of value of equity shares issued to transferor companies**

		<i>A Ltd.</i>	<i>B Ltd.</i>
		(₹)	(₹)
Assets taken over:			
Building		66,000	52,500
Plant and machinery		88,000	73,500
Investments		40,000	25,000
Inventories		36,000	40,000
Trade receivables		40,500	31,500
Cash & Bank		<u>40,000</u>	<u>25,000</u>
		3,10,500	2,47,500
Less: Liabilities:			
10% Debentures	50,000		30,000

Trade payables	25,000		15,000	
Tax Provision	<u>7,000</u>	<u>(82,000)</u>	<u>4,000</u>	<u>(49,000)</u>
		2,28,500		1,98,500
Less: Preference Share Capital		<u>(30,000)</u>		<u>(20,000)</u>
		<u>1,98,500</u>		<u>1,78,500</u>

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	A Ltd.	B Ltd.	Total
Equity shares issued @ ₹ 15 per share (including ₹ 5 premium) ₹ 1,98,500/15	13,233 shares <sup>1</sup>		
₹ 1,78,500/15		11,900 shares	25,133 shares
Equity share capital @ ₹ 10	₹ 1,32,330	₹ 1,19,000	₹ 2,51,330
Securities premium @ ₹ 5	<u>₹ 66,165</u>	<u>₹ 59,500</u>	<u>₹ 1,25,665</u>
	<u>₹ 1,98,495</u>	<u>₹ 1,78,500</u>	<u>₹ 3,76,995</u>
<i>50% of Debentures are converted into equity shares @ ₹ 15 per share</i>			
50,000/2 = 25,000/15	1,666 shares <sup>2</sup>		
30,000/2 = 15,000/15		1,000 shares	2,666 shares
Equity share capital @ ₹ 10	₹ 16,660	₹ 10,000	₹ 26,660
Securities premium @ ₹ 5	<u>₹ 8,330</u>	<u>₹ 5,000</u>	<u>₹ 13,330</u>
	<u>₹ 24,990</u>	<u>₹ 15,000</u>	<u>₹ 39,990</u>
9% Preference share capital issued	₹ 30,000	₹ 20,000	₹ 50,000

9. In the books of Loser Ltd.

Journal Entries

	Particulars	Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50) Dr. To Equity share capital A/c (15,000 x ₹ 2.50)	7,50,000	37,500

<sup>1</sup> Cash paid for fraction of shares = ₹ 1,98,500 less ₹ 1,98,495 = ₹ 5

<sup>2</sup> Cash paid for fraction of shares = ₹ 25,000 less ₹ 24,990 = ₹ 10



	To Reconstruction A/c (Being equity capital reduced to nominal value of ₹ 2.50 each)		7,12,500
2.	Bank A/c Dr. To Equity share capital A/c (45,000 x ₹ 2.50) (Being 3 right shares against each equity share was issued and subscribed)	1,12,500	1,12,500
3.	7% Preference share capital A/c (12,000 x ₹ 50) Dr. Reconstruction A/c Dr. To 5% Preference share capital A/c (48,000 x ₹ 10) To Equity share capital A/c (72,000 x ₹ 2.50) (Being each 7% Preference share of ₹ 50 each converted to 4 new 5% Preference shares of ₹ 10 each and also given 6 Equity shares for every share held)	6,00,000 60,000	4,80,000 1,80,000
4.	Loan A/c Dr. To 5% Preference share capital A/c (12,000 x ₹ 10) To Equity share capital A/c (12,000 x ₹ 2.50) (Being loan to the extent of ₹ 1,50,000 converted into share capital)	1,50,000	1,20,000 30,000
5.	Bank A/c (40,000 x 2.5) Dr. To Equity share application money A/c (Being shares subscribed by the directors)	1,00,000	1,00,000
6.	Equity share application money A/c Dr. To Equity share capital A/c (40,000 x ₹ 2.50) (Being application money transferred to capital A/c)	1,00,000	1,00,000
7.	Bank Loan A/c Dr. To Bank A/c (Being loan repaid)	2,00,000	2,00,000
8.	Reconstruction A/c Dr. To Profit and loss A/c To Plant A/c To Trademarks and Goodwill A/c (Bal.fig.) (Being losses and assets written off to the extent required)	6,52,500	4,51,000 35,000 1,66,500

**Balance Sheet of Loser Ltd. (and reduced)**  
as on 31.3.2013

	<i>Particulars</i>	<i>Notes No.</i>	<i>₹</i>
	<b>Equity and Liabilities</b>		
1	<b>Shareholders' funds</b>		
a	Share capital	1	10,60,000
2	<b>Non-current liabilities</b>		
a	Long-term borrowings	2	2,23,000
3	<b>Current liabilities</b>		
a	Trade Payables		2,07,000
b	Other liabilities		<u>35,000</u>
	<b>Total</b>		<u>15,25,000</u>
	<b>Assets</b>		
1	<b>Non-current assets</b>		
a	Fixed assets		
	Tangible assets	3	6,33,000
b	Intangible Assets	4	1,51,500
2	<b>Current assets</b>		
a	Inventory		4,00,000
b	Trade receivables		3,28,000
c	Cash and cash equivalents (1,12,500 + 1,00,000 – 2,00,000)		12,500
	<b>Total</b>		<u>15,25,000</u>

**Notes to accounts**

	<i>₹</i>
<b>1. Share Capital</b>	
Authorised share capital:	
65,000 Preference shares of ₹ 10 each	6,50,000
3,00,000 Equity shares of ₹ 2.50 each	<u>7,50,000</u>
Issued, subscribed and paid up	
1,84,000 equity shares of ₹ 2.5 each	4,60,000
60,000, 5% Preference shares of ₹ 10 each	<u>6,00,000</u>

	<u>10,60,000</u>
<b>2. Long-term borrowings</b>	
Secured	
Bank Loan	2,23,000
<b>3. Tangible assets</b>	
Building at cost less depreciation	4,00,000
Plant at cost less depreciation	<u>2,33,000</u>
	<u>6,33,000</u>
<b>4. Intangible Assets</b>	
Trademarks and Goodwill	1,51,500

10.

Beta Ltd.

## Liquidator's Final Statement of Account

<i>Receipts</i>	<i>Value Realised</i>		<i>Payments ₹</i>	<i>Payment ₹</i>
<i>Assets Realised :</i>				
Cash at Bank	2,40,000	Liquidator's Remuneration (W.N. 1)		1,02,224
Sundry Debtors	8,00,000	Liquidation Expenses		1,17,736
Inventory	6,40,000	Debentureholders :		
Plant and Machinery	20,00,000	14% Debentures	9,20,000	
Patent	2,00,000	Interest Accrued (W.N. 2)	<u>1,61,000</u>	10,81,000
Surplus from Securities (W.N. 3)	5,20,000	Creditors :		
		Preferential	1,20,000	
		Unsecured	<u>3,51,200</u>	4,71,200
		Preference Shareholders :		
		Preference Share Capital	16,00,000	
		Arrears of Dividend	<u>2,24,000</u>	18,24,000
		Equity Shareholders (W.N.4) :		
		₹ 25.12 per share on 32,000 shares		<u>8,03,840</u>
	<u>44,00,000</u>			<u>44,00,000</u>

## Working Notes :

		₹
1	Liquidator's remuneration : 2% on assets realised (2% of ₹ 47,60,000)	95,200

	2% on payments to unsecured creditors (2% on ₹ 3,51,200)	<u>7,024</u>
		<u>1,02,224</u>
2	Interest accrued on 14% Debentures :	
	Interest accrued as on 31.3.2013	1,28,800
	Interest accrued upto the date of payment i.e. 30.6.2013	<u>32,200</u>
		<u>1,61,000</u>
3	Surplus from Securities :	
	Amount realised from Land and Buildings (₹ 3,20,000 + ₹ 8,00,000)	11,20,000
	Less : Mortgage Loan	<u>(6,00,000)</u>
		<u>5,20,000</u>
4	Amount payable to Equity Shareholders :	
	Equity share capital (paid up)	19,20,000
	Less : Amount available for equity shareholders	<u>(8,03,840)</u>
	Loss to be born by equity shareholders	<u>11,16,160</u>
	Loss per equity share (₹ 11,16,160/32,000)	34.88
	Amount payable to equity shareholders for each equity share (60-34.88)	25.12

11.

**Form B-RA**

Name of Insurer: Perfect General Insurance Company

Registration No. and Date of Registration with IRDA

Fire Revenue Account for the year ended 31<sup>st</sup> March, 2013

	Schedule	Current year ₹
Premium earned (Net)	1	<u>6,77,500</u>
Total (A)		<u>6,77,500</u>
Claims incurred (net)	2	2,37,500
Commission	3	13,125
Operating expenses relating to insurance business	4	<u>1,81,250</u>
Total (B)		<u>4,31,875</u>
Operating Profit from Fire Insurance Business C=(A)-(B)		<u>2,45,625</u>

## Schedule 1: Premium Earned (Net)

			₹
Premium received			8,00,000
Less: Reinsurance premium			<u>(43,750)</u>
Net premium			7,56,250
Adjustment for change in reserve for unexpired risk:			
Total opening provisions		3,75,000	
Closing provision:			
50% of net premium	3,78,125		
Additional provision @ 10%	<u>75,625</u>	<u>(4,53,750)</u>	<u>(78,750)</u>
Premium Earned (Net)			<u>6,77,500</u>

## Schedule 2: Claims Incurred (Net)

		₹
Claims paid		1,75,000
Add: Claims outstanding at the end of the year		<u>1,25,000</u>
		3,00,000
Less: Claims outstanding at the beginning of the year		<u>(62,500)</u>
		<u>2,37,500</u>

## Schedule 3: Commission

		₹
Commission paid		50,000
Less: Commission earned on reinsurance ceded		<u>(36,875)</u>
		<u>13,125</u>

## Schedule 4: - Operating expenses

Expenses of management	₹ 1,81,250
------------------------	------------

12. (a)

Gain Bank Ltd.

Profit and Loss Account for the year ended 31<sup>st</sup> March, 2013

<i>Particulars</i>	<i>Schedule No.</i>	<i>Year ended 31st March, 2013 (₹ '000)</i>
<b>I. Income:</b>		
Interest earned	13	313.00
Other income	14	6.50
Total		319.50
<b>II. Expenditure:</b>		
Interest expended	15	115.00
Operating expenses	16	47.50
Provisions & Contingencies (Provisions for income tax + Provisions for doubtful debts + unexpired discount) [36+15.5+15]		66.50
Total		229.00
<b>III. Profit/Loss:</b>		
Net Profit for the year		90.50
Profit/Loss brought forward		-
		90.50
<b>IV. Appropriations:</b>		
Transfer to Statutory Reserve @ 25%		22.63
Balance carried over to Balance Sheet		67.87
Total		90.50

## Schedule 13 – Interest Earned

<i>Particulars</i>	<i>Year ended 31st March, 2013 (₹ '000)</i>
I. Interest/Discount (112.5 + 100.5 + 52.5 + 47.5)	313.00
II. Interest on investment	-
III. Interest on balances with RBI and other inter bank fund	-
	313.00

## Schedule 14 – Other Income

<i>Particulars</i>	<i>Year ended 31st March, 2013 (₹ 000)</i>
I. Commission, Exchange and Brokerage	23.50
II. Loss on sale of investments	(17.00)
	6.50

## Schedule 15 – Interest Expended

<i>Particulars</i>	<i>Year ended 31st March, 2013 (₹ 000)</i>
I. Interest on Deposits (77.5 + 37.5)	115
II. Interest on RBI/inter bank borrowings	-
	115

## Schedule 16 – Operating Expenses

<i>Particulars</i>	<i>Year ended 31st March, 2013 (₹ 000)</i>
I. Payments to and provision for employees	41
II. Printing & Stationery	2.5
III. Directors' fees, allowances and expenses	1.5
IV. Auditors' fees	2.5
	47.50

(b)

		<i>₹ in crores</i>	<i>₹ in crores</i>
(i)	Capital funds – Tier I		
	Equity share capital		750
	Statutory reserve		150
	Securities Premium		150
	Capital reserve (arising out of sale of assets) (90-40)		<u>50</u>
			1,100
	Less: Intangible Assets		<u>(15)</u>
			<u>1,085</u>

(ii)	Capital funds – Tier II		
	Capital reserve (arising out of revaluation of assets)	40	
	Less: Discount to the extent of 55%	<u>(22)</u>	18

## 13. (a) Average capital cost

	2010-11	2011-12	2012-13	2013-14
	₹	₹	₹	₹
Opening capital cost (A)	2,84,330.74	3,04,175.32	3,09,748.62	3,13,615.70
Additional capital expenditure (allowed above) (B)	<u>19,844.58</u>	<u>5,573.30</u>	<u>3,867.08</u>	<u>3,015.70</u>
Closing Capital cost (A)+(B)	<u>3,04,175.32</u>	<u>3,09,748.62</u>	<u>3,13,615.70</u>	<u>3,16,631.40</u>
Average Capital cost	2,94,253.03	3,06,961.97	3,11,682.16	3,15,123.55

## (b) Depreciation

Annual weighted average rate of depreciation is considered as 5.28% and retained for the purpose of tariff. The necessary calculations are as under:

	2010-11	2011-12	2012-13	2013-14
Average capital cost	2,94,253.03	3,06,961.97	3,11,682.16	3,15,123.55
Weighted Average Rate of depreciation %	0.0528	0.0528	0.0528	0.0528
Depreciation (annualized)	15,536.56	16,207.60	16,456.82	16,638.52



14.

**In the Books of M/s Omega**  
**Departmental Trading and Profit and Loss Account**  
**for the year ended 31<sup>st</sup> March, 2013**

<i>Particulars</i>	<i>Deptt. X</i>	<i>Deptt. Y</i>	<i>Deptt. Z</i>	<i>Total</i>	<i>Particulars</i>	<i>Deptt. X</i>	<i>Deptt. Y</i>	<i>Deptt. Z</i>	<i>Total</i>
	₹	₹	₹	₹		₹	₹	₹	₹
To Opening Stock	36,000	24,000	20,000	80,000	By Sales	1,80,000	1,35,000	90,000	4,05,000
To Purchases	1,32,000	88,000	44,000	2,64,000	By Closing Stock	45,000	17,500	21,000	83,500
To Carriage Inwards	1,500	1,000	500	3,000					
To Gross Profit c/d	55,500	39,500	46,500	1,41,500					
	2,25,000	1,52,500	1,11,000	4,88,500		2,25,000	1,52,500	1,11,000	4,88,500
To Carriage Outwards	1,200	900	600	2,700	By Gross Profit b/d	55,500	39,500	46,500	1,41,500
To Electricity	1,500	1,000	500	3,000	By Discount received	900	600	300	1,800
To Salaries	20,000	16,000	12,000	48,000					
To Advertisement	1,200	900	600	2,700					
To Discount allowed	1,000	750	500	2,250					
To Rent, Rates and Taxes	3,000	2,500	2,000	7,500					
To Depreciation	400	400	200	1,000					
To Provision for Bad Debts	750	500	500	1,750					
To Labour welfare expenses	1,000	800	600	2,400					
To Net Profit	26,350	16,350	29,300	72,000					
	56,400	40,100	46,800	1,43,300		56,400	40,100	46,800	1,43,300

**Working Note:**

Basis of allocation of expenses	
Carriage inwards	Purchases (3:2:1)
Carriage outwards	Turnover (4:3:2)
Salaries	No. of Employees (5:4:3)
Advertisement	Turnover (4:3:2)
Discount allowed	Turnover (4:3:2)
Discount received	Purchases (3:2:1)
Rent, Rates and Taxes	Floor Space occupied (6:5:4)
Depreciation on furniture	Value of furniture (2:2:1)
Labour welfare expenses	No. of Employees (5:4:3)
Electricity expenses	Units consumed (3:2:1)
Provision for bad debts	Debtors balances (3:2:2)

15. (a) **In the Books of M/s X  
Delhi Branch Account**

2012		₹	₹	2012		₹	₹
Jan. 1	To Balance b/d			Dec. 31	By Bank		
	Stock	64,000			Cash Sales	3,10,000	
	Debtors	24,000			Cash from		
	Petty cash	<u>3,000</u>	91,000		Sundry		
					Debtors	<u>3,58,000</u>	6,68,000
					(W.N.1)		
Dec. 31	To Goods sent to			By Goods sent to			
	Branch A/c		6,72,000	Branch A/c –			
	To Bank:			Returns			
	Sundry		20,000	to H.O.			24,000
	Expenses						
	To Petty			By Balance c/d			
	Expenses			Stock		80,000	
	(W.N. 2)		10,000	Debtors		22,000	
	To Balance being			Petty Cash		<u>5,000</u>	1,07,000
	Profit carried						
	to (H.O.) P&L						
	A/c		<u>6,000</u>				
			<u>7,99,000</u>				<u>7,99,000</u>
Jan. 1, 2013	To Balance b/d		1,07,000				

**Working Notes:**

<b>1. Cash Collected from debtors</b>	₹
Debtors as on 1.1.12	24,000
Add: Credit sales	<u>3,60,000</u>
	3,84,000
Less :Bad debts and sales returns (2,000 + 2,000)	(4,000)
Closing balance of debtors	<u>(22,000)</u>
Cash collected during the year	<u>3,58,000</u>
<b>2. Petty expenses</b>	
Petty cash as on 1.1.12	3,000
Add: Cash received from H.O	<u>12,000</u>
	15,000
Less: Petty cash as on 31.12.12	<u>(5,000)</u>
Expenses during the year	<u>10,000</u>

(b)

In the books of ABC Ltd.

New York Branch Trial Balance in (₹)

as on 31st March, 2013

	<i>Conversion rate per US \$</i> (₹)	<i>Dr.</i> ₹	<i>Cr.</i> ₹
Stock on 1.4.12	40	6,000	–
Purchases and sales	41	16,400	30,750
Sundry debtors and creditors	42	8,400	6,300
Bills of exchange	42	2,520	5,040
Sundry expenses	41	22,140	–
Bank balance	42	8,820	–
Delhi head office A/c	–	–	22,190
		<u>64,280</u>	<u>64,280</u>

16. (a)

<i>Particulars</i>	<i>Financial Capital Maintenance at Historical Cost (₹)</i>
Closing equity (₹ 30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x ₹ 20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 – 12,00,000)

(b) As per para 8 of AS 4, "adjustments" to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. In the given case, since Raj Ltd. was sued by a competitor for infringement of a trademark during the year 2012-13 for which the provision was also made by it, the decision of the Court on 18<sup>th</sup> May, 2013, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Raj Ltd. should adjust the provision upward by ₹ 4 lakhs to reflect the amount decreed by the Court and to be paid by them to its competitor.

17. (a) It is given that revision of wages took place in July, 2012 with retrospective effect from 1.4.2008. The arrear wages payable for the period from 1.4.2008 to 31.3.2012 cannot be taken as an error or omission in the preparation of financial statements and hence this expenditure cannot be taken as a prior period item.

Additional wages liability of ₹ 40,00,000 (from 1.4.2008 to 31.3.2012) should be included in current year's wages. It may be mentioned in the Statement of Profit and Loss that additional wages is an expense arising from the ordinary activities of the company, although abnormal in amount, such an expense does not qualify as an extraordinary item. However, as per para 12 of AS 5, 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Since the amount involved herein is huge, the separate disclosure for the same is required.

However, wages payable for the current year (from 1.4.2012 to 1.7.2012) amounting ₹ 3,50,000 is not a prior period item hence need not be disclosed separately. This may be shown as current year wages.

(b) AS 11 'The Effects of Changes in Foreign Exchange Rates' provides that exchange differences attributable to monetary items should be taken to Statement of Profit and Loss. In case the option under para 46A is exercised, the exchange differences

arising on long-term foreign currency monetary items can be adjusted in the cost of the depreciable capital asset or in other cases transferred in Foreign Currency Monetary Item Translation Difference Account (FCMITD) and amortised.

(i) Sundry Debtors:

Particulars	Foreign currency	Rate	Rupees
Initial recognition	US \$ 12,919.90	38.70	5,00,000
Rate on B/S date		45.80	
Exchange Difference	US \$ 12,919.90	7.10	91,731
Gain or loss			Gain
Treatment			Credit Profit & Loss A/c ₹ 91,731

(ii) Long Term loan

Particulars	Foreign currency	Rate	Rupees
Initial recognition	US \$ 1,68,539.33	35.60	60,00,000
Rate on B/S date		45.90	
Exchange Difference	US \$ 1,68,539.33	10.30	17,35,955
Gain or loss			Loss
Treatment			Debit Profit & Loss A/c ₹ 17,35,955 or transfer to FCMITD A/c and amortise.

18. (a) As per para 21 of AS 12, 'Accounting for Government Grants', amount refundable in respect of a grant related to revenue should be applied first against any unamortized deferred credit remaining in respect of the grant. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to the Statement of Profit and Loss.
- (i) In this case, the grant refunded is ₹ 300 lakhs and balance in deferred income is ₹ 210 lakhs, therefore, ₹ 90 lakhs shall be charged to the Statement of Profit and Loss for the year 2012-13. There will be no effect on the cost of the fixed asset and depreciation charged will be same as charged in the earlier years.
- (ii) As per para 21 of AS 12, the amount refundable in respect of grant which was related to specific fixed assets should be recorded by increasing the book value of the assets by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case

the book value of the plant shall be increased by ₹ 300 lakhs. The increased cost of ₹ 300 lakhs of the plant should be amortised over 7 years (remaining useful life). Depreciation charged during the year 2012-13 shall be  $1200/10 + 300/7 = 162.86$  lakhs.

(b) (i) **Computation of weighted average accumulated expenses**

		₹
₹ 10,00,000 x 12 / 12	=	10,00,000
₹ 24,00,000 x 8 / 12	=	16,00,000
₹ 4,00,000 x 3 / 12	=	<u>1,00,000</u>
		<u>27,00,000</u>

(ii) **Non-specific Borrowings utilized for construction of Plant**

Non-specific Borrowings = Average accumulated capital expenses – Specific borrowings

$$= ₹ 27,00,000 - ₹ 8,00,000 = ₹ 19,00,000$$

(iii) **Interest on weighted average accumulated expenses**

	₹
Specific borrowings (₹ 8,00,000 X 10%)	80,000
Non-specific borrowings (₹ 19,00,000 × 12%)	<u>2,28,000</u>
Amount of interest to be capitalized	<u>3,08,000</u>

(iv) **Total expenses to be capitalized for Plant**

	₹
Cost of plant ₹ (10,00,000 + 24,00,000 + 4,00,000)	38,00,000
Add: Amount of interest to be capitalised	<u>3,08,000</u>
Total cost of plant	<u>41,08,000</u>

19. (a) (i) Finance Lease.
- (ii) If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease.
- (iii) It will still be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term
- (iv) Where  $X = Y$ , or where  $X$  substantially equals  $Y$ , it is a finance lease.
- (v) Since the asset is procured only for the use of lessee, it is a finance lease.

- (b) As per para 16 of AS 20, "Earnings Per Share", the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or less number of shares outstanding at any time. For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

**Weighted average number of equity shares**

7,20,000 X 5/12	= 3,00,000 shares
9,60,000 X 5/12	= 4,00,000 shares
8,40,000 X 2/12	= <u>1,40,000 shares</u>
	= <u>8,40,000 shares</u>

20. (a) (i) Based on sales, research and development cost (assumed that entire cost of ₹ 225 lakhs is development cost) is allocated as follows:

Year	Research and Development cost allocation (₹ in lakhs)
1	225/1,500 x 600 = 90
2	225/1,500 x 450 = 67.5
3	225/1,500 x 300 = 45
4	225/1,500 x 150 = 22.5

- (ii) If at the end of the 3rd year, the circumstances do not justify that further benefit will accrue in the 4th year, then the company has to charge the unamortised amount i.e. remaining ₹ 67.5 lakhs [225 - (90 + 67.5)] as an expense immediately.
- (b) As per para 46 of AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', when some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

Accordingly, potential loss to an enterprise may be reduced or avoided because a contingent liability is matched by a related counter-claim or claim against a third party. In such cases, the amount of the provision is determined after taking into account the probable recovery under the claim if no significant uncertainty as to its measurability or collectability exists.

In this case, the provision of salary to employees of ₹ 680 lakhs will be ultimately collected from the client, as per the terms of the contract. Therefore, the liability of ₹ 680 lakhs is matched by the counter claim from the client. Hence, the provision for salary of employees should be made reducing the claim to be made from the client. It appears that the whole amount of ₹ 680 lakhs is recoverable from client and there is no significant uncertainty about the collection. Hence, the net charge to profit and loss account should be nil.

The opinion of the accountant regarding non-recognition of income of ₹ 680 lakhs is not as per AS 29. The concept of prudence will not be followed if ₹ 680 lakhs is simultaneously recognized as income. Amount of ₹ 680 lakhs is not the revenue at present but only reimbursement of claim. However, the accountant is correct to the extent as that non- recognition of ₹ 680 lakhs as income will result in the understatement of profit.