PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2015 EXAMINATION

A. Applicable for May, 15 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 7th March, 2013. This revision is applicable with effect from the accounting year commencing on or after April 1, 2012.

(ii) Paragraphs 46 for entities other than Companies

In line with para 46 inserted by the MCA for corporate entities, the Council of the ICAI has also inserted Paragraph 46 in AS 11 for entities other than Companies in the month of February, 2014:

46(1) In respect of accounting periods commencing on or after 7th December, 2006 (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 asset, can be added to or deducted from the cost of the asset and should be depreciated over the balance life of the asset, 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 asset 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.

(2) To exercise the option referred to in sub-paragraph (1), an asset or liability shall be designated as a 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 should 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.”

(iii) Companies Act, 2013

The relevant Sections of the Companies Act, 2013 notified up to 30th September 2014 will be applicable for May, 2015 Examination.

(iv) Maintenance of Statutory Liquidity Ratio (SLR)

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 /12.02.001/2014-15 dated August 5, 2014 has decided that Statutory Liquidity Ratio for every Scheduled Commercial Bank and Local Area Banks be reduced to *22 per cent of their Net Demand and Time Liabilities (NDTL)* with effect from the fortnight beginning August 9, 2014.

RBI vide notification No. RBI/2014-15/166RPCD.RCB.BC.No.22/07.51.020/2014-15, dated August 06, 2014, has decided to reduce the Statutory Liquidity Ratio (SLR) of State/Central Cooperative Banks from 22.5 percent of their *Net Demand and Time Liabilities (NDTL) to 22.0 per cent* with effect from the fortnight beginning August 9, 2014.

(v) 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.

(vi) SLR Holdings under Held to Maturity Category

In terms of para 1.2 of the circular RPCD.CO.RRB.BC.No. 74/03.05.33/2013-14 dated January 07, 2014 on 'Guidelines for Classification, Valuation and Provisioning', RRBs were permitted to exceed the limit of 25.00 percent of total investments under the HTM category provided the excess comprised only SLR securities and the total SLR securities held in the HTM category was not more than 24.50 per cent of their NDTL as on last Friday of the second preceding fortnight. In consonance with the calibrated reduction in the SLR and in order to enable RRBs greater participation in financial markets, the RBI vide Notification No. RBI/2014-15/168 RPCD.CO.RRB. BC.No.25/03.05.33/2014-15, dated August 7, 2014 has permitted RRBs to exceed the limit of 25 per cent of total investments under HTM category provided the excess comprises only SLR securities, and the total SLR securities held in the HTM category is not more than 24.00 per cent of their NDTL as on the last Friday of the second preceding fortnight with effect from August 9, 2014.

(Source: rbi.org.in)

(vii) Buy Back of Securities (Amendment) Regulations, 2013

In exercise of the powers conferred under section 30 of the Securities and Exchange Board of India Act, 1992, SEBI made Securities and Exchange Board of India (Buy-back of Securities) (Amendment) Regulations, 2013 to amend the Securities and Exchange Board of India (Buy back of Securities) Regulations, 1998. The important provisions of the new regulations are:

(i) No offer of buy-back for fifteen per cent or more of the paid up capital and free reserves of the company shall be made from the open market.

(ii) A company shall not make any offer of buy-back within a period of one year reckoned from the date of closure of the preceding offer of buy-back, if any.

(iii) The company shall ensure that at least fifty per cent of the amount earmarked for buy-back is utilized for buying-back shares or other specified securities.

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

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

[Source: www.sebi.gov.in]

B. <u>Not applicable for May, 15 examination</u>

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 Ind ASs are not applicable for the students appearing in May, 15 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Sale of Partnership firm to a Company

1. 'X' and 'Y' carrying on business in partnership sharing Profit and Losses equally, wished to dissolve the firm and sell the business to 'X' Limited Company on 31-3-2015, when the firm's position was as follows:

Liabilities	₹	*Assets*	₹
X's Capital	1,50,000	Land and Building	1,00,000
Y's Capital	1,00,000	Furniture	40,000
Creditors	60,000	Stock	1,00,000
		Debtors	66,000
		Cash	4,000
	3,10,000		3,10,000

The arrangement with X Limited Company was as follows:

(i) Land and Building was purchased at 20% more than the book value.

(ii) Furniture and stock were purchased at book values less 15%.

(iii) The goodwill of the firm was valued at ₹ 40,000.

(iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services, the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.

(v) The purchase price was to be discharged by the company in fully paid equity shares of ₹ 10 each at a premium of ₹ 2 per share. The shares received from the company were distributed between the partners in the ratio of their final claims.

The company collected all the amounts from debtors. The creditors were paid off less by ₹ 1,000 allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation account, the Capital accounts of the partners and the Cash account in the books of partnership firm.

Dissolution of partnership firm

2. (a) The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2014. Their balance sheet as on that date is given below:

Liabilities	*Amount ₹*	*Assets*	*Amount ₹*
Capital Accounts:		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	7,000
Total	1,63,500	Total	1,63,500

(a) The partners share profit and losses in the ratio of 4:3:2.

(b) Cash is distributed to the partners at the end of each month.

(c) A summary of liquidation transactions are as follows:

January 2015

- ₹ 9,000 - collected from debtors; balance is uncollectable.
- ₹ 8,000 - received from the sale of entire furniture
- ₹ 1,000 - Liquidation expenses paid.
- ₹ 6,000 - Cash retained in the business at the end of month

February 2015

- ₹ 1,000 - Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for ₹ 9,000 (book value ₹ 3,500)
- ₹ 2,000 - Cash retained in the business at the end of month

March 2015

- ₹ 38,000 - received on the sale of remaining plant and machinery.
- ₹ 10,000 - received from the sale of entire stock.
- ₹ 1,700 - Liquidation expenses paid.
- ₹ 41,000 - Received on sale of land & building.
- No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

Issues related to Accounting in LLPs

(b) What are the liabilities of designated partners in a LLP. Explain in brief.

Employees Stock Option Plan

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

Grant date	April 1, 2011
Number of employees covered	50
Number options granted per employee	1,000
Fair value of option per share on grant date (₹)	9

The options will vest to employees serving continuously for 3 years from vesting date, provided the share price is ₹ 70 or above at the end of 2013-14.

The estimates of number of employees satisfying the condition of continuous employment were 48 on 31/03/12, 47 on 31/03/13. The number of employees actually satisfying the condition of continuous employment was 45.

The share price at the end of 2013-14 was ₹ 68.

Compute expenses to recognise in each year and show important accounts in books of the company.

Redemption of Debentures

4. 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 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.

Buy Back of Securities

5. The following was the summarized balance sheet of Gamma (an unlisted company) Ltd. as on 31st March, 2014:

Equity & liabilities	*(₹ in lakhs)*	*Assets*	*(₹ in lakhs)*
Authorised capital:		Fixed assets	56,000
Equity shares of ₹ 10 each	40,000	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	13,200		
	1,07,600		1,07,600

On 1st April, 2014, 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 as allowed by the law.

Underwriting of Securities

6. A company made a public issue of 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. The entire issue was underwritten by the underwriters L, M, N and O in the ratio of 4:3:2:1 respectively with the provision of firm underwriting of 5,000, 4,000, 2,000 and 2,000 shares respectively.

The company received application for 1,50,000 shares (excluding firm underwriting) from public, out of which applications for 55,000, 40,000, 42,000 and 8,000 shares were marked in favour of L, M, N and O respectively.

Calculate the liability of each underwriter as regards the number of shares to be taken up assuming that the benefit of underwriting is not given to the individual underwriter.

Internal Reconsturction of a Company

7. The summarized Balance Sheet of Vaibhav Ltd. as on 31st March 2014 is as follows:

Liabilities	₹	*Assets*	₹
Equity Shares of ₹ 100 each	2,00,00,000	Fixed Assets	2,50,00,000
6%, Cumulative Preference Shares of ₹ 100 each	1,00,00,000	Investments (Market Value ₹ 19,00,000	20,00,000
5% Debentures of ₹ 100 each	80,00,000	Current Assets	2,00,00,000
Trade Payables	1,00,00,000	P & L A/c	12,00,000
Provision for taxation	2,00,000		
TOTAL	4,82,00,000	TOTAL	4,82,00,000

The following scheme of Internal Reconstruction is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) Fixed assets are to be written down by 20%.

(v) Current assets are to be revalued at ₹ 90,00,000.

(vi) Investments are to be brought to their market value.

(vii) One of the creditors of the company (included under trade payales in the above balance sheet) to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.

(viii) The taxation liability is to be settled at ₹ 3,00,000.

(ix) It is decided to write off the debit balance of Profit & Loss A/c.

Pass necessary journal entries and show the Balance Sheet of the company after giving effect to the above.

Amalgamation of Companies

8. The following are the summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2014:

Liabilities	*P Ltd.* ₹	*Q Ltd.* ₹	*Assets*	*P Ltd.* ₹	*Q Ltd.* ₹
Share Capital			Fixed Assets	7,00,000	2,50,000

Equity Shares of ₹ 10 each	6,00,000	3,00,000	Investment	80,000	80,000
			Current Assets:		
10% Pref. Shares of ₹ 100 each	2,00,000	1,00,000	Inventory	2,40,000	3,20,000
			Trade receivables	4,20,000	2,10,000
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:					
Trade payables	2,50,000	1,50,000			
	15,50,000	9,00,000		15,50,000	9,00,000

Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	*Q Ltd. (₹)*
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	2,10,000
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	1,50,000

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory 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, P Ltd. will absorb Q Ltd. on the following terms:

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

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

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

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

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd.

Liquidation of Company

9. The following is the summarized Balance Sheet of Shah Ltd. Co. which is in the hands of the liquidator:

Balance Sheet as at 31.3.2015

Liabilities	₹	*Assets*	₹
Share Capital:		Fixed assets	2,00,000
1,000, 6% Preference Shares of ₹ 100 each, fully paid	1,00,000	Inventory Book debts	1,20,000 2,40,000
2,000 Equity shares of ₹ 100 each, fully paid	2,00,000	Cash in hand Profit and loss A/c	40,000 3,00,000
2,000 Equity shares of ₹ 100 each ₹ 75 paid up	1,50,000		
Loan from bank (on security of stock)	1,00,000		
Trade Payables	3,50,000		
	9,00,000		9,00,000

The assets realized the following amounts (after all costs of realization and liquidator's commission amounting to ₹ 5,000 paid out of cash in hand).

	₹
Fixed assets	1,68,000
Inventory	1,10,000
Trade Receivables	2,30,000

Calls on partly paid shares were made but the amounts due on 200 shares were found to be irrecoverable.

You are required to prepare Liquidator's Final Statement of Receipts and Payments.

Financial Statements of a Banking Company

10. A commercial bank has the allowing capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted asset ratio.

Particulars	*Amount (₹ in crores)*
Equity Share Capital	400.000
Statutory Reserve	250.000
Capital Reserve (of which Statutory Reserve ₹ 18 crores were due to revaluation of assets and the balance due to sale of capital assets)	86.000
<u>Assets</u>	
Cash Balance with RBI	12.00
Balance with other Banks	20.00
Other Investments	40.00
<u>Loans & Advances</u>	
(i) Guaranteed by Government	14.50
(ii) Others	5,465.00
Premises Furniture & Fixtures	74.00
<u>Off Balance Sheet Items</u>	
(i) Guarantees and other obligations	700
(ii) Acceptances, endorsements and letter of credit	4,900.00

11. The following facts have been taken out from the records of City Bank Ltd. as on 31st March, 2015:

	₹	₹
Rebate on bill discounted (not due on March 31st, 2014)		91,600
Discount received		4,05,000
Bill discounted	24,50,000	

An analysis of the bills discounted is as follows:

	Amount	*Due date*	*Rate of discount*
	₹	*2015*	
(i)	7,50,000	April 8	12%
(ii)	3,00,000	May 5	14%
(iii)	4,40,000	June 12	14%
(iv)	9,60,000	July 15	15%

You are required to:-

(i) Calculate Rebate on Bill Discounted as on 31st March, 2015.

(ii) The amount of discount to be credited to the profit and loss account.

Financial Statements of Insurance Companies

12. From the following information of XYZ Marine Insurance Ltd. for the year ending 31st March, 2014, find out the

(i) Net Premium earned

(ii) Net Claims Incurred

Particulars	*Direct Business (₹)*	*Re-insurance (₹)*
Premium Received	92,00,000	7,86,000
Premium Receivable as on 01.04.2013	4,59,000	37,000
Premium Receivable as on 31.03.2014	3,94,000	33,000
Premium Paid		6,36,000
Premium Payable as on 01.04.2013		28,000
Premium payable as on 31.03.2014		20,000
Claims Paid	73,00,000	5,80,000
Claims payable as on 01.04.2013	94,000	16,000
Claims payable as on 31.03.2014	1,01,000	12,000
Claims received		2,10,000
Claims receivable as on 01.04.2013		42,000
Claims receivable as on 31.03.2014		39,000

Financial Statements of Electricity Companies

13. Following information has been provided in respect of Watson Power Generation Project:

1. Date of commercial operation/work completed date : 1st April, 1995
2. Capital Cost at the beginning of the year 2010-11 : ₹ 135.39 Crore
3. Useful Life : 35 years
4. Details of allowed capital expenditure, details of actual repayment of loan and weighted average rate of interest on loan is as follows:

	2010-11	*2011-12*	*2012-13*
	(₹ in Crore)	*(₹ in Crore)*	*(₹ in Crore)*
Additional Capital Expenditure (allowed above)	1.63	0.98	0.52

Repayment of Loan during the year (net)	0.96	0.87	0.68
Weighted Average Rate of Interest on Loan	7.35%	7.48%	7.50%
Value of Land	0.00	0.00	0.00

5. Depreciation recovered upto 2008-09 = ₹ 49.05 Crore
6. Depreciation recovered in 2009-10 = ₹ 3.26 Crore
7. Cumulative Repayment of Loan upto 2009-10 = ₹ 14,00 Crore

From the above information, calculate (a) Interest on Loans considering loan amount as 70% of total capital cost; (b) Depreciation as per the Central Electricity Commission (Terms and Conditions of Tariff) Regulations, 2009:

Departmental Accounts

14. The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2014 after adjusting the unrealized department profits if any.

	Deptt. A ₹	*Deptt. B* ₹
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were ₹ 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A ₹ 1,00,000 including goods from Department B for ₹ 20,000 at cost of Department A. (b) Closing stock of Department B ₹ 2,00,000 including goods from Department A for ₹ 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of ₹ 10,000 and ₹ 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.

Branch Accounting

15. (a) Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

(i) Expenses of ₹ 2,800 allocated to the Branch by Head Office but not recorded in the Branch books.

(ii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 1,000.

(iii) Branch paid ₹ 3,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(iv) Branch incurred travelling expenses of ₹ 5,000 on behalf of other Branches, but not recorded in the books of Branch.

(v) A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(vi) Head Office allocates ₹ 75,000 to the Branch as Head Office expenses, which has not yet been recorded by the Branch.

(vii) Head Office collected ₹ 30,000 directly from a Branch Customer. The intimation of the fact has been received by the Branch only now.

(viii) Goods dispatched by the Head office amounting to ₹ 10,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

Foreign Branch

(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 31st March, 2015 and the additional information given thereafter:

	Dr.($)	*Cr.($)*
Stock on 1st April, 2014	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 1.4.2014 @ ₹ 40 per US $
- on 31.3.2015 @ ₹ 42 per US $
- average exchange rate for the year @ ₹ 41 per US $.

New York branch account showed a debit balance of ₹ 22,190 on 31.3.2015 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. Mohan started a business on 1st April 2014 with ₹ 12,00,000 represented by 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 2015, 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 2014-15 if Financial Capital is maintained at historical cost.

Problems based on Accounting Standards

AS 20

17. (a) The following information is available for AB Ltd. for the accounting year 2012-13 and 2013-14:

Net profit for		₹
Year	2012-13	22,00,000
Year	2013-14	30,00,000

No of shares outstanding prior to right issue 10,00,000 shares.

Right issue: One new share for each five shares outstanding i.e. 2,00,000 shares.

: Right Issue price ₹ 25

: Last date to exercise right 31st July, 2013

Fair value of one equity share immediately prior to exercise of rights on 31.07.2013 is ₹ 32.

You are required to compute:

(i) Basic earnings per share for the year 2012-13.

(ii) Restated basic earnings per share for the year 2012-13 for right issue.

(iii) Basic earnings per share for the year 2013-14.

AS 19

(b) X Ltd. has leased equipment over its useful life that costs ₹ 7,46,55,100 for a three year lease period. After the lease term the asset would revert to the Lessor. You are informed that:

(i) The estimated unguaranteed residual value would be ₹ 1 lakh only.

(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

(iii) Implicit interest rate is 10%.

You are required to ascertain the annual lease payment and the unearned finance income. Annual lease payments are made at the end of each accounting year. P.V. factor @ 10% for years 1 to 3 are 0.909, 0.826 and 0.751 respectively.

AS 16

18. (a) Suhana Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.05.2013, to be utilized as under:

Particulars	*Amount (₹ in lakhs)*
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2014, construction of the factory building was completed and machinery was installed and ready for it's intended use. Total interest on debentures for the financial year ended 31.03.2014 was ₹ 11,00,000. During the year 2013-14, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of ₹ 2,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

AS 5

(b) Explain whether the following will constitute a change in accounting policy or not as per AS 5.

(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organistaion. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

AS 11

19. (a) Explain briefly the accounting treatment needed in the following cases as per AS 11:

(i) Trade Receivables 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

(b) On 1.4.2011, ABC Ltd. received Government grant of ₹ 300 lakhs for acquisition of machinery costing ₹ 1,500 lakhs. The grant was credited to the cost of the asset. The life of the machinery is 5 years. The machinery is depreciated at 20% on WDV basis. The Company had to refund the grant in May 2014 due to non-fulfillment of certain conditions.

How you would deal with the refund of grant in the books of ABC Ltd.?

AS 26

20. (a) During 2014-15, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (₹)
Completion of detailed programme and design	25,000
Coding and Testing	20,000
Other coding costs	42,000
Testing costs	12,000
Product masters for training materials	13,000
Packing the product (1,000 units)	11,000

What amount should be capitalized as software costs in the books of the company, on Balance Sheet date?

AS 29

(b) Shyam Ltd. (a Public Sector Company) provides consultancy and engineering services to its clients. In the year 2014-15, 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 2014-2015 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".

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.

You are required to comment on the treatment done by the company in line with provisions of Accounting Standards.

SUGGESTED ANSWERS/HINTS

1. Books of Partnership Firm

Realisation Account

	₹			₹
To Land & Building	1,00,000	By Sundry Creditors		60,000
To Furniture	40,000	By X Ltd. Co. - Purchase consideration – (W.N.1)		2,79,000
To Stock	1,00,000			
To Debtors	66,000	By X Ltd. Company – Sundry Debtors	66,000	
To X Ltd. Co. - Sundry Creditors	59,000	*Less*: Commission 5% on 66,000	3,300	62,700
To X Ltd. Co. – Commission 3% on 59,000	1,770			
To Profits transferred to X's Capital A/c 17,465 Y's Capital A/c 17,465	34,930			
	4,01,700			4,01,700

Capital Accounts

	X	Y		X	Y
	₹	₹		₹	₹
To Shares in X Ltd. Co.–(W.N.2)	1,63,980	1,15,020	By Balance b/d	1,50,000	1,00,000
To Cash – Final Payment	3,485	2,445	By Realisation a/c - Profit	17,465	17,465
	1,67,465	1,17,465		1,67,465	1,17,465

Cash Account

		₹			₹
To	Balance b/d	4,000	By	X's Capital A/c- Final payment	3,485
To	X Ltd. Co. (Amount realized from Debtors less amount paid to creditors) – (W.N.3)	1,930	By	Y's Capital A/c- Final Payment	2,445
		5,930			5,930

Working Notes:

1 Calculation of Purchase consideration

	₹
Land & Building	1,20,000
Furniture	34,000
Stock	85,000
Goodwill	40,000
	2,79,000

2 Shares received from X Ltd. Co.

The shares received from the company have been distributed between the two partners X & Y in the ratio of their final claims i.e., 1,67,465: 1,17,465.

No. of shares received from the company = $\frac{2,79,000}{12} = 23,250$

X gets $\frac{23,250 \times 1,67,465}{2,84,930} = 13,665$ shares valued at 13,665 x 12 = ₹ 1,63,980.

Y gets the remaining 9,585 shares, valued at ₹ 1,15,020 (9,585 × 12)

3 Calculation of net amount received from X Ltd

		₹
	Amount realized from Debtors	66,000
Less:	Commission for realization from debtors (5% on 66,000)	3,300
		62,700
Less:	Amount paid to creditors	59,000
		3,700
Less:	Commission for cash paid to creditors (3% on 59,000)	1,770
Net amount received		1,930

2. (a)

Particulars	*Cash*	*Creditors*	*Capitals*		
	₹	₹	*P (₹)*	*Q (₹)*	*R (₹)*
Balance due after loan		16,000	52,000	43,500	32,000
January					
Balance available	9,000				
Realization less expenses and cash retained	10,000				
Amount available and paid	19,000	(16,000)	-	-	(3,000)
Balance due	-	-	52,000	43,500	29,000
February					
Opening Balance	6,000				
Expenses paid and cash carried forward	3,000				
Available for distribution	3,000				
Cash paid to Q and Machinery given to R			-	3,000	9,000
Balance due	-		52,000	40,500	20,000
March					
Opening Balance	2,000				
Amount realized less expenses	87,300				
Amount paid to partners	89,300		41,689	32,767	14,844
Loss			10,311	7,733	5,156

Working Note:

(i) Highest Relative Capital Basis

	P (₹)	*Q (₹)*	*R (₹)*
Scheme of payment for January 2015			
Balance of Capital Accounts	65,000	50,500	32,000
Less: Loans	(13,000)	(7,000)	-
(A)	52,000	43,500	32,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	14,500	16,000

Capital in profit sharing ratio, taking P's capital as base (B)	52,000	39,000	26,000
Excess of R's capital and Q's Capital (A – B) (i)		4,500	6,000
Profit Sharing Ratio		3	2
Capital / Profit sharing Ratio		1,500	3,000
Capital in profit sharing ratio, taking Q's capital as base (ii)		4,500	3,000
Excess of R's Capital over Q's capital (i – ii)			3,000

(ii) Scheme of distribution of available cash for March:

	P (₹)	*Q (₹)*	*R (₹)*
Balance of Capital Accounts at end of February (A)	52,000	40,500	20,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	13,500	10,000
Capital in profit sharing ratio, taking R's capital as base (B) (i)	40,000	30,000	20,000
Excess of P's Capital and Q's Capital (A – B) (i)	12,000	10,500	
Profit Sharing Ratio	4	3	
Capital / Profit sharing Ratio	3,000	3,500	
Capital in profit sharing ratio taking P's capital as base (ii)	12,000	9,000	
Excess of Q's Capital over P's Capital (i – ii)	-	1,500	
Payment ₹ 1500 (C)		(1,500)	
Balance of Excess Capital (i –C)	12,000	9,000	
Payment ₹ 21000 (D)	(12,000)	(9,000)	
Balance due (A – C – D)	40,000	30,000	20,000
Balance cash Payment (₹ 89,300 – ₹ 22,500) = ₹ 66,800 (E)	(29,689)	(22,267)	(14,844)
Total Payment (₹ 89,000) (C + D +E) (iii)	41,689	32,767	14,844
Loss (A – iii)	10,311	7,733	5,156

(b) Liabilities of designated partners

As per Section 8 of LLP Act, unless expressly provided otherwise in this Act, a designated partner shall be-

(1) responsible for the doing of all acts, matters and things as are required to be done by the limited liability partnership in respect of compliance of the provisions of this Act including filing of any document, return, statement and the like report pursuant to the provisions of this Act and as may be specified in the limited liability partnership agreement; and .

(2) liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

3. The vesting of options is subject to satisfaction of two conditions viz. service condition of continuous employment for 3 years and market condition that the share price at the end of 2013-14 is not less than ₹ 70. Since the share price on 31/03/14 was ₹ 68, the actual vesting shall be nil. Despite this, the company should recognise value of option over 3-year vesting period from 2011-12 to 2013-14.

Year 2011-12

Fair value of option per share = ₹ 9

Number of shares expected to vest under the scheme = 48 × 1,000 = 48,000

Fair value = 48,000 × ₹ 9 = ₹ 4,32,000

Expected vesting period = 3 years

Value of option recognised as expense in 2011-12 = ₹ 4,32,000 /3 = ₹ 1,44,000

Year 2012-13

Fair value of option per share = ₹ 9

Number of shares expected to vest under the scheme = 47 × 1,000 = 47,000

Fair value = 47,000 × ₹ 9 = ₹ 4,23,000

Expected vesting period = 3 years

Cumulative value of option to recognise as expense in 2011-12 and 2012-13

= (₹ 4,23,000/ 3) × 2 = ₹ 2,82,000

Value of option recognised as expense in 2011-12 = ₹ 1,44,000

Value of option recognised as expense in 2012-13

= ₹ 2,82,000 – ₹ 1,44,000 = ₹ 1,38,000

Year 2013-14

Fair value of option per share = ₹ 9

Number of shares actually vested under the scheme = 45 × 1,000 = 45,000

Fair value = 45,000 × ₹ 9 = ₹ 4,05,000

Vesting period = 3 years

Cumulative value of option to recognise as expense in 2011-12, 2012-13 and 2013-14 = ₹ 4,05,000

Value of option recognised as expense in 2011-12 and 2012-13 = ₹ 2,82,000

Value of option recognised as expense in 2013-14 = ₹ 4,05,000 – ₹ 2,82,000 = ₹ 1,23,000

Employees' Compensation A/c

Year		₹	*Year*		₹
2011-12	To ESOP Outstanding A/c	1,44,000	2011-12	By Profit & Loss A/c	1,44,000
		1,44,000			1,44,000
2012-13	To ESOP Outstanding A/c	1,38,000	2012-13	By Profit & Loss A/c	1,38,000
		1,38,000			1,38,000
2013-14	To ESOP Outstanding A/c	1,23,000	2013-14	By Profit & Loss A/c	1,23,000
		1,23,000			1,23,000

ESOP Outstanding A/c

Year		₹	*Year*		₹
2011-12	To Balance c/d	1,44,000	2011-12	By Employees' Compensation A/c	1,44,000
		1,44,000			1,44,000
2012-13	To Balance c/d	2,82,000	2012-13	By Balance b/d	1,44,000
				By Employees' Compensation A/c	1,38,000
		2,82,000			2,82,000
2013-14	To General Reserve	4,05,000	2013-14	By Balance b/d	2,82,000
				By Employees' Compensation A/c	1,23,000
		4,05,000			4,05,000

4. **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			48,000

	Debentures A/c (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 (1,44,000 × ₹10)			14,40,000
	To Securities Premium 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	

5. **Journal Entries**

In the books of Gamma Ltd.

			Dr.	*Cr.*
				₹ in lakhs
1	Bank A/c	Dr.	12,600	
	To Investments A/c			12,000
	To Profit and Loss A/c			600
	(Being Investments sold and profit being credited to Profit and Loss Account)			
2	Bank A/c	Dr.	8,000	
	To Bank Loan A/c			8000
	(Being Loan taken from Bank to finance Buyback)			

3	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%)			
4	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)			
5	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. Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriter

Particulars	No. of shares				
	L	*M*	*N*	*O*	*Total*
Gross liability	80,000	60,000	40,000	20,000	2,00,000
Less: Marked Applications (excluding firm underwriting)	(55,000)	(40,000)	(42,000)	(8,000)	(1,45,000)
Balance	25,000	20,000	(2,000)	12,000	55,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,000)	(750)	2,000	(250)	-
Balance	24,000	19,250	-	11,750	55,000
Less: Unmarked application including firm underwriting (WN)	(7,200)	(5,400)	(3,600)	(1,800)	(18,000)
Net Liability	16,800	13,850	(3,600)	9,950	37,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,800)	(1,350)	3,600	(450)	-
Balance	15,000	12,500	-	9,500	37,000
Add: Firm Underwriting	5,000	4,000	2,000	2,000	13,000
Total Liability	20,000	16,500	2,000	11,500	50,000

Working Note:

Particulars	*No. of shares*
Applications received from public	1,50,000
Add: Firm underwriting	13,000
Total Applications	1,63,000
Less: Marked application	(1,45,000)
Unmarked application including firm underwriting	18,000

7. Journal Entries in the books of Vaibhav Ltd.

		₹	₹
(i)	Equity share capital (₹ 100) A/c Dr.	2,00,00,000	
	To Equity Share Capital (₹ 40) A/c		80,00,000
	To Capital Reduction A/c		1,20,00,000
	(Being conversion of equity share capital of ₹ 100 each into ₹40 each as per reconstruction scheme)		

(ii)	6% Cumulative Preference Share capital (₹ 100) A/c Dr.	1,00,00,000	
	To 6% Cumulative Preference Share Capital (₹ 60) A/c		60,00,000
	To Capital Reduction A/c		40,00,000
	(Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		
(iii)	5% Debentures (₹ 100)A/c Dr.	80,00,000	
	To 6% Debentures (₹ 70) A/c		56,00,000
	To Capital Reduction A/c		24,00,000
	(Being 6% debentures of ₹ 70 each issued to existing 5% debenture-holders. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Trade Payable A/c Dr.	40,00,000	
	To Equity Share Capital (₹ 40) A/c		24,00,000
	To Capital Reduction A/c		16,00,000
	(Being a creditor of ₹ 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	2,00,000	
	Capital Reduction A/c Dr.	1,00,000	
	To Liability for Taxation A/c		3,00,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)		
(vi)	Capital Reduction A/c Dr.	199,00,000	
	To P & L A/c		12,00,000
	To Fixed Assets A/c		50,00,000
	To Current Assets A/c		110,00,000
	To Investments A/c		1,00,000
	To Capital Reserve A/c (Bal. fig.)		26,00,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		

(vii)	Liability for Taxation A/c Dr.	3,00,000	
	To Current Assets (Bank A/c)		3,00,000
	(Being the payment of tax liability)		

Balance Sheet of Vaibhav Ltd. (After Reconstruction) as on 31.3.2014

Particulars	*Notes*	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	164,00,000
b Reserves and Surplus	2	26,00,000
2 Non-current liabilities		
Long-term borrowings	3	56,00,000
3 Current liabilities		
Trade Payables(1,00,00,000 less 40,00,000)		60,00,000
Total		3,06,00,000
Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	4	200,00,000
b Investments	5	19,00,000
2 Current assets	6	87,00,000
Total		3,06,00,000

Notes to accounts

		₹
1. Share Capital		
Equity share capital		
Issued, subscribed and paid up		
2,60,000 equity shares of ₹ 40 each (60,000 shares have been issued for consideration other than cash)		1,04,00,000
Preference share capital		
Issued, subscribed and paid up		
1,00,000 6% Cumulative Preference shares of ₹ 60 each		60,00,000
Total		1,64,00,000

2.	**Reserves and Surplus**		
	Capital Reserve		26,00,000
3.	**Long-term borrowings**		
	Secured		
	6% Debentures		56,00,000
4.	**Tangible assets**		
	Fixed Assets	2,50,00,000	
	Adjustment under scheme of reconstruction	(50,00,000)	2,00,00,000
5.	**Investments**	20,00,000	
	Adjustment under scheme of reconstruction	(1,00,000)	19,00,000
6.	**Current assets**		
	Adjustment under scheme of reconstruction	2,00,00,000	
		110,00,000	
		90,00,000	
	Taxation liability paid	(3,00,000)	87,00,000

Working Note:

Capital Reduction Account

To Liability for taxation A/c	1,00,000	By Equity share capital	1,20,00,000
To P & L A/c	12,00,000	By 6% Cumulative preferences Share capital	40,00,000
To Fixed Assets	50,00,000		
To Current assets	110,00,000	By 5% Debentures	24,00,000
To Investment	1,00,000	By Sundry creditors	16,00,000
To Capital Reserve (Bal. fig.)	26,00,000		
	2,00,00,000		2,00,00,000

8. (a) Journal Entries in the Books of P 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.	4,90,000	
To Liquidator of Q Ltd.			4,90,000
(Consideration payable for the business taken over from Q Ltd.)			
Fixed Assets (115% of ₹ 2,50,000)	Dr.	2,87,500	
Inventory (95% of ₹ 3,20,000)	Dr.	3,04,000	
Debtors	Dr.	1,90,000	
Bills Receivable	Dr.	20,000	
Investment	Dr.	80,000	
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 Q Ltd.			1,62,000
To Bills Payable			25,000
To Business Purchase Account			4,90,000
To Capital Reserve (Balancing figure)			80,000
(Incorporation of various assets and liabilities taken over from Q Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of Q Ltd.	Dr.	4,90,000	
To Equity Share Capital			4,00,000
To 10% Preference Share Capital			90,000
(Discharge of consideration for Q Ltd.'s business)			
12% Debentures in Q 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 of Q Ltd. at a discount of 10%)			
Sundry Creditors	Dr.	10,000	

To Sundry Debtors			10,000
(Cancellation of mutual owing)			
Goodwill	Dr.	30,000	
To Bank			30,000
(Being liquidation expenses reimbursed to Q Ltd.)			
Capital Reserve	Dr.	30,000	
To Goodwill			30,00
(Being goodwill set off)			

(b) Statement of Consideration payable by P Ltd. for 30,000 shares (payment method)

Shares to be allotted $\frac{30,000}{6} \times 8$ = 40,000 shares of P Ltd.

Issued 40,000 shares of ₹ 10 each i.e.	₹ 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	

9. Liquidator's Final Statement of Receipts and Payments A/c

	₹	₹		₹
To Cash in hand To Assets realised:		40,000	By Liquidator's remuneration and expenses	5,000
Fixed assets	1,68,000		By Trade Payables	3,50,000
Inventory			By Preference shareholders	1,00,000
(1,10,000 – 1,00,000) Book debts	10,000 2,30,000	4,08,000	By Equity shareholders @ ₹ 10 on 2,000 shares	20,000
To Cash - proceeds of call on 1,800 equity shares @ ₹ 15		27,000		
		4,75,000		4,75,000

Working Note:

Return per equity share

	₹
Cash available before paying preference shareholders (₹ 4,48,000 – ₹ 3,55,000)	93,000

Add: Notional calls 1,800 shares (2,000-200) × ₹ 25	45,000
	1,38,000
Less: Preference share capital	(1,00,000)
Available for equity shareholders	38,000
Return per share= $\frac{₹\ 38,000}{3,800\ (4,000-200)} = ₹\ 10$	
and Loss per Equity Share ₹ (100-10) = ₹ 90	

Calls to be made @ ₹ 15 per share (₹ 90-75) on 1,800 shares.

10. (a) **Computation of Tier I and Tier II Capital Fund**

Particulars			*Amount (₹ in crores)*
(i)	**Capital Funds – Tier I**		
	Equity Share Capital		400.00
	Statutory Reserve		250.00
	Capital Reserve (arising out of sale of assets i.e. ₹ 86 cr – ₹18 cr)		68.00
			718.00
(ii)	**Capital Fund – Tier-II**		
	Capital Reserve (arising out of revaluation of assets)	18.00	
	Less: Discount to the extent of 55%	(9.90)	8.10
			726.10

Risk Adjusted Assets

Particulars	*Amount (₹ in crores)*	*% of weight*	*Amount (₹ in crores)*
Funded Risk Assets			
Cash Balance with RBI	12.00	0	0.00
Balance with other Banks	20.00	20	4.00
Other Investments	40.00	100	40.00
Loans & Advances :			
(i) Guranteed by Government	14.50	0	0.00
(ii) Others	5,465.00	100	5,465.00
Premises Furniture & Fixture	74.00	100	74.00
Total (i)			5583.00

Off Balance Sheet Items			
Guarantees and other obligations	700.00	100	700.00
Acceptances, endorsements and letter of credit	4,900.00	100	4,900.00
Total (ii)			5,600.00
Total [(i) + (ii)]			11183.00

Risk Weighted Assets Ratio:

$$\frac{\text{Capital Fund x 100}}{\text{Risk Adjusted Assets}}$$

= (726.10 / 11183) x 100

= 6.49%

11. (i) Calculation of Rebate on bills discounted

S.No.	*Amount (₹)*	*Due date 2015*	*Unexpired portion*	*Rate of discount*	*Rebate on bill discounted ₹*
(i)	7,50,000	April 8	8 days	12%	1,972
(ii)	3,00,000	May 5	35 days	14%	4,028
(iii)	4,40,000	June 12	73 days	14%	12,320
(iv)	9,60,000	July 15	106 days	15%	41,820
					60,140

(ii) Amount of discount to be credited to the Profit and Loss Account

	₹
Transfer from Rebate on bills discount as on 31st March, 2014	91,600
Add: Discount received during the year ended 31st March, 2015	4,05,000
	4,96,600
Less: Rebate on bills discounted as on 31st March, 2015	60,140
Discount credited to the Profit and Loss Account	4,36,460

12. In the books of XYZ Marine Insurance Ltd.

	Amount (₹)
(i) Net Premium earned	
Premium from Direct Business received	92,00,000
Add: Receivable as on 31.03.2014	3,94,000

Less: Receivable as on 01.04.2013	(4,59,000)
Sub Total (A)	91,35,000
Premium on reinsurance accepted	7,86,000
Add: Receivable as on 31.03.2014	33,000
Less: Receivable as on 01.04.2013	(37,000)
Sub Total (B)	7,82,000
Premium on reinsurance Ceded	6,36,000
Add: Payable as on 31.03.2014	20,000
Less: Payable as on 01.04.2013	(28,000)
Sub Total (C)	6,28,000
Premium Earned (A+B-C)	92,89,000
(ii) Net Claims Incurred	
Claims paid on direct business	73,00,000
Add: Outstanding as on 31.03.2014	1,01,000
Less: Outstanding as on 01.04.2013	(94,000)
Sub Total (A)	73,07,000
Reinsurance claims	5,80,000
Add: Outstanding as on 31.03.2014	12,000
Less: Outstanding as on 01.04.2013	(16,000)
Sub Total (B)	5,76,000
Claims received from reinsurance	2,10,000
Add: Outstanding as on 31.03.2014	39,000
Less: Outstanding as on 01.04.2013	(42,000)
Sub Total (C)	2,07,000
Net Claim Incurred (A+B-C)	76,76,000

13. (a) Interest on loan

	2010-11 ₹	*2011-12* ₹	*2012-13* ₹
Opening Capital cost (A)	135.39	137.02	138
Gross Opening loan - considered at 70% of (A)=(B)	94.773	95.914	96.6
Cumulative Repayment of Loan upto previous year (C)	14	14.96	15.83

Net Loan Opening (B)-(C)=(D)	80.773	80.954	80.77
Additional capital expenditure (allowed above) (E)	1.63	0.98	0.52
Addition of loan due to approved additional capital expenditure - considered at 70% of (E)=(F)	1.141	0.686	0.364
Repayment of loan during the year (net)(G)	0.96	0.87	0.68
Net Loan Closing [(D)+(F)-(G)=(H)]	80.954	80.77	80.454
Average Loan[(D)+(H)/2]=I	80.864	80.862	80.612
Weighted Average Rate of Interest on Loan (J)	7.35%	7.48%	7.50%
Interest on Loan(I) x (J)	5.944	6.048	6.046

(b) Depreciation

Name of the Power Station : Wastan Power Generation Project	
Date of commercial operation /Work Completed Date	1/4/95
Beginning of Current year	1/4/10
Useful life	35 Years
Remaining Useful Life	20 Years

(Figures in ₹ crores)

S.N.		*2010-11*	*2011-12*	*2012-13*
	Capital cost at beginning of the year	135.39	137.02	138
	Additional capitalisation during the year	1.63	0.98	0.52
	Closing capital cost	137.02	138	138.52
1	Average capital cost	136.205	137.51	138.26
2	*Less*: Value of Land	0.000	0.000	0.000
3	Capital cost for depreciation (1-2)	136.205	137.51	138.26
4	Depreciable value (90% of 3)	122.585	123.759	124.434
5	Depreciation recovered up to 2008-09	49.05		
6	Depreciation recovered in 2009-10	3.26		
7	Depreciation recovered upto previous year	52.31	55.824	59.400
8	Balance depreciation to be recovered (4-7)	70.27	67.936	65.035
9	Balance useful life of 35 years	20	19	18
10	Yearly depreciation from 2010-11 (8/9)	3.514	3.576	3.613
11	Depreciation recovered upto the year (7+10)	55.824	59.400	63.013

14. Departmental Trading and Loss Account of M/s Division

For the year ended 31st December, 2014

	Deptt. A	Deptt. B		Deptt. A	Deptt. B
	₹	₹		₹	₹
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	₹		₹
To Stock reserve required (additional:		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (₹ 20,000 - ₹ 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (₹ 30,000 - ₹ 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		10,25,000

Working Notes:

1. Stock of department A will be adjusted according to the rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

15. (a)

Books of Branch

Journal Entries

			Amount in ₹	
			Dr.	Cr.
(i)	Expenses Account	Dr.	2,800	
	To Head Office Account A/c			2,800
	(Being the expenses allocated by the Head office not recorded earlier, now recorded)			
(ii)	Provision for Doubtful Debts A/c	Dr.	1,000	
	To Head Office Account			1,000
	(Being the provision for doubtful debts not provided earlier, now provided for)			
(iii)	Head Office Account	Dr.	3,000	
	To Salaries Account			3,000
	(Being rectification of salary paid on behalf of Head Office)			
(iv)	Head Office Account	Dr.	5,000	
	To Cash Account			5,000
	(Being expenditure incurred on account of other branch, now recorded in books)			
(v)	No entry in Branch Books is required.			
(vi)	Expenses Account	Dr.	75,000	
	To Head Office Account			75,000
	(Being allocated expenses of Head Office recorded)			
(vii)	Head Office Account	Dr.	30,000	
	To Debtors Account			30,000
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)			
(viii)	Goods-in- transit Account	Dr.	10,000	
	To Head Office Account			10,000
	(Being goods sent by Head Office still in-transit)			

(b) In the books of ABC Ltd.
New York Branch Trial Balance in (₹)
as on 31st March, 2015

	Conversion rate per US $ (₹)	Dr. ₹	Cr. ₹
Stock on 1.4.14	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
		64,280	64,280

16.

Particulars	Financial Capital Maintenance at Historical Cost (₹)
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)

17. (a) Computation of Basic Earnings per Share

		Year 2012-13 (₹)	Year 2013-14 (₹)
(i)	EPS for the year 2012-13 as originally reported = Net profit for the year attributable to equity share holder / weighted average number of equity shares outstanding during the year $\frac{₹\ 22,00,000}{10,00,000\ \text{shares}}$	2.20	
(ii)	EPS for the year 2012-13 restated for the right issue	2.12	

	$\frac{₹\ 22,00,000}{10,00,000 \text{ shares} \times 1.04}$		
(iii)	EPS for the year 2013-14 (including effect of right issue) $\frac{₹\ 30,00,000}{(10,00,000 \times 1.04 \times 4/12) + (12,00,000 \times 8/12)}$		2.62

Working Notes:

1. Computation of theoretical ex-rights fair value per share =

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

$$\frac{(₹\ 32 \times 10,00,000) + (₹\ 25 \times 2,00,000)}{10,00,000 + 2,00,000} = ₹\ 30.83$$

2. Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}}$$

$$= \frac{₹\ 32}{₹\ 30.83} = 1.04 \text{ (approx.)}$$

(b) (i) Calculation of Annual Lease Payment

	₹
Cost of the equipment	7,46,55,100
Unguaranteed Residual Value	1,00,000
PV of unguaranteed residual value for 3 years @ 10% (₹ 1,00,000 x 0.751)	75,100
Fair value to be recovered from Lease Payment (₹ 7,46,55,100 – ₹ 75,100)	7,45,80,000
PV Factor for 3 years @ 10%	2.486
Annual Lease Payment (₹ 7,45,80,000 / PV Factor for 3 years @ 10% i.e. 2.486)	3,00,00,000

(ii) Unearned Finance Income

Total lease payments [₹ 3,00,00,000 x 3]	9,00,00,000
Add: Residual value	1,00,000

Gross Investments	9,01,00,000
Less: Present value of Investments (₹ 7,45,80,000+ ₹ 75,100)	(7,46,55,100)
Unearned Finance Income	1,54,44,900

18. (a) According to para 6 of AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

Also para 10 of AS 16 "Borrowing Costs" states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost

= ₹ 11,00,000 – ₹ 2,00,000

= ₹ 9,00,000

Sr. No.	*Particulars*	*Nature of assets*	*Interest to be Capitalized (₹)*	*Interest to be charged to Profit & Loss Account (₹)*
i	Construction of factory building	Qualifying Asset*	9,00,000x40/100 = ₹ 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = ₹ 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = ₹ 2,25,000
	Total		₹ 3,60,000	₹ 5,40,000

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

(b) As per para 31 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

(i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

(ii) The adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.

19. (a) 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) Trade Receivables

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 to 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 to Profit & Loss A/c ₹ 17,35,955 or transfer to FCMITD A/c and amortise.

(b) According to para 21 of AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset should be recorded by increasing the book value of the asset or by reducing deferred income balance, as appropriate, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		₹ *(in lakhs)*
1st April, 2011	Acquisition cost of machinery (₹ 1,500 – ₹ 300)	1,200.00
31st March, 2012	*Less*: Depreciation @ 20%	(240.00)
	Book value	960.00
31st March, 2013	*Less*: Depreciation @ 20%	(192.00)
	Book value	768.00
31st March, 2014	*Less*: Depreciation @ 20%	(153.60)
1st April, 2014	Book value	614.40
May, 2014	*Add*: Refund of grant	300.00
	Revised book value	914.40

Depreciation @ 20% on the revised book value amounting ₹ 914.40 lakhs is to be provided prospectively over the remaining useful life of the asset i.e. years ended 31st March, 2015 and 31st March, 2016.

20. (a) As per para 44 of AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed programme design or working model. In this case, ₹ 45,000 would be recorded as an expense (₹ 25,000 for completion of detailed program design and ₹ 20,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (₹ 42,000 + ₹ 12,000 + ₹ 13,000) ₹ 67,000.

(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.