PAPER – 1: ACCOUNTING

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

A. Applicable for November, 2016 examination

Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 30th April, 2016 will be applicable for November, 2016 Examination.

B. Not applicable for November, 2016 examination

I. Non-Applicability of Ind ASs for November, 2016 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS have not been made applicable for November, 2016 Examination.

II. Non-applicability of Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006 and Companies (Indian Accounting Standards) Rules, 2015

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 and Companies (Indian Accounting Standards) Rules, 2015 have not been made applicable for November, 2016 examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. (a) Prepare a Balance Sheet as at 31st March 2016, as per Schedule III of the Companies Act, 2013, from the following information of Kalyan Ltd.-

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| Term Loans (Secured) | 20,00,000 | Investments (Non-current) | ,50,000 |
| Trade payables | 22,90,000 | Profit for the year | 16,00,000 |
| Other advances | 7,44,000 | Trade receivables | 24,50,000 |
| Cash and Bank Balances | 19,20,000 | Miscellaneous Expenses | 1,16,000 |
| Staff Advances | 1,10,000 | Loan from other parties | 4,00,000 |
| Provision for Taxation | 5,10,000 | Provision for Doubtful | |

| | | | |
|---|---|---|---|
| Securities Premium | 9,50,000 | Debts | 40,000 |
| Loose Tools | 1,00,000 | Stores | 8,00,000 |
| General Reserve | 31,00,000 | Fixed Assets (WDV) | 1,13,00,000 |
| Capital Work-in- progress | 4,00,000 | Finished Goods | 15,00,000 |

Additional Information:-

1. Share Capital consist of-
   (a) 60,000 Equity Shares of ₹ 100 each fully paid up.
   (b) 20,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.
2. The company proposed and declared dividend @ 5% of equity share capital. The dividend distribution tax rate is 17.304%.
3. Depreciate Assets by ₹ 10,00,000.

Managerial Remuneration – Effective Capital

(b) The following extract of Balance Sheet of Star Ltd. was obtained:

Balance Sheet (Extract) as on 31st March, 2016

| *Liabilities* | ₹ |
|---|---|
| Authorised capital: | |
| 60,000, 14% preference shares of ₹100 | 60,00,000 |
| 6,00,000 Equity shares of ₹100 each | 6,00,00,000 |
| | 6,60,00,000 |
| Issued and subscribed capital: | |
| 45,000, 14% preference shares of ₹ 100 each fully paid | 45,00,000 |
| 3,60,000 Equity shares of ₹ 100 each, ₹ 80 paid-up | 2,88,00,000 |
| Share suspense account | 60,00,000 |
| Reserves and surplus | |
| Capital reserves (₹ 4,50,000 is revaluation reserve) | 5,85,000 |
| Securities premium | 1,50,000 |
| Secured loans: | |
| 15% Debentures | 1,95,00,000 |
| Unsecured loans: | |
| Public deposits | 11,10,000 |
| Cash credit loan from SBI (short term) | 3,95,000 |
| Current Liabilities: | |
| Trade Payables | 10,35,000 |
| Assets: | |
| Investment in shares, debentures, etc. | 2,25,00,000 |
| Profit and Loss account (Dr. balance) | 45,75,000 |

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Star Ltd. is an investment company?

## Cash flow statement

2. The following are the summarized Balance Sheets of Fan Ltd. as on 31st March 2015 and 2016:

| *Liabilities* | *31-3-2015* ₹ | *31-3-2016* ₹ |
|---|---|---|
| Equity share capital (₹ 10 each) | 5,00,000 | 6,25,000 |
| Capital reserve | | 5,000 |
| Profit and loss A/c | 2,00,000 | 2,40,000 |
| Long term loan from the bank | 2,50,000 | 2,00,000 |
| Trade payables | 2,50,000 | 2,00,000 |
| Provision for taxation | 25,000 | 30,000 |
| | 12,25,000 | 13,00,000 |
| *Assets* | ₹ | ₹ |
| Land and building | 2,00,000 | 1,90,000 |
| Machinery | 3,75,000 | 4,60,000 |
| Investment | 50,000 | 25,000 |
| Inventory | 1,50,000 | 1,40,000 |
| Trade receivables | 2,00,000 | 2,10,000 |
| Cash in hand | 1,00,000 | 70,000 |
| Cash at bank | 1,50,000 | 2,05,000 |
| | 12,25,000 | 13,00,000 |

Additional information:

(1) Depreciation written off on land and building ₹ 10,000.

(2) The company sold some investment at a profit of ₹ 5,000, which was credited to Capital Reserve.

(3) Income-tax provided during the year ₹ 27,500.

(4) During the year, the company purchased a machinery for ₹ 1,12,500. They paid ₹ 62,500 in cash and issued 5,000 equity shares of ₹ 10 each at par.

You are required to prepare a cash flow statement for the year ended 31st March 2016 as per AS 3 by using indirect method.

## Profit/Loss prior to Incorporation

3. Lotus Ltd. was incorporated on 1st July, 2015 to acquire a running business of Feel goods with effect from 1st April, 2015. During the year 2015-16, the total sales were ₹ 48,00,000 of which ₹ 9,60,000 were for the first six months. The Gross profit of the company ₹ 7,81,600. The expenses debited to the Profit & Loss Account included:

   (i) Director's fees ₹ 60,000

   (ii) Bad debts ₹ 14,400

   (iii) Advertising ₹ 48,000 (under a contract amounting to ₹ 4,000 per month)

   (iv) Salaries and General Expenses ₹ 2,56,000

   (v) Preliminary Expenses written off ₹ 20,000

   (vi) Donation to a political party given by the company ₹ 20,000.

   Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2016.

## Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Sona Ltd. as at 31st March, 2016

| | ₹ |
|---|---|
| Authorised capital: | |
| 30,000 12% Preference shares of ₹ 10 each | 3,00,000 |
| 3,00,000 Equity shares of ₹ 10 each | 30,00,000 |
| | 33,00,000 |
| Issued and Subscribed capital: | |
| 24,000 12% Preference shares of ₹ 10 each fully paid | 2,40,000 |
| 2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up | 21,60,000 |
| Reserves and surplus: | |
| General Reserve | 3,60,000 |
| Capital Reserve (profit realized on sale of plant) | 1,20,000 |
| Securities premium | 75,000 |
| Profit and Loss Account | 6,00,000 |

On 1st April, 2016, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2016. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Company decides to use Capital Reserve for bonus issue as it has been realized in cash.

Show necessary journal entries in the books of the company and prepare the extract of Notes to accounts of the balance sheet as on 30th April, 2016 after bonus issue.

### Internal Reconstruction of a Company

5. The summarised Balance Sheet of Preet Limited as on 31st March 2016, was as follows:

| *Liabilities* | *(₹)* | *Assets* | *(₹)* |
|---|---|---|---|
| Authorised and subscribed capital: | | Fixed Assets: | |
| 20,000 Equity shares of ₹ 100 each fully paid | 20,00,000 | Machineries | 7,00,000 |
| Unsecured loans: | | Current Assets: | |
| 15% Debentures | 6,00,000 | Inventory | 5,06,000 |
| Accrued interest | 90,000 | Trade receivables | 4,60,000 |
| Current Liabilities: | | Bank | 40,000 |
| Trade payables | 1,04,000 | Profit & loss A/c | 11,60,000 |
| Provision for income tax | 72,000 | | |
| | 28,66,000 | | 28,66,000 |

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

(i) Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.

(ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.

(iii) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.

(iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.

(v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.

(vi) Balance of Profit and Loss account to be written off.

(vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

6. Following is the summarized Balance Sheets as at March 31, 2016:

| | | | | | *(₹ '000)* |
|---|---|---|---|---|---|
| *Liabilities* | *Kanak Ltd.* | *Ronak Ltd.* | *Assets* | *Kanak Ltd.* | *Ronak Ltd.* |
| Share capital: | | | Goodwill | 60 | – |
| Equity shares of ₹ 100 each | 45,00 | 30,00 | Other fixed assets<br>Trade receivables | 45,00<br>19,53 | 22,80<br>13,20 |
| 9% Preference shares of ₹ 100 each | 15,00 | 1,200 | Inventory<br>Cash at bank | 11,79<br>78 | 20,40<br>390 |
| General reserve | 540 | 510 | Own debentures | | |
| Profit and loss account | – | 45 | (Nominal value ₹ 6,00,000) | 576 | |
| 12% Debentures of ₹ 100 each | 18,00 | 600 | Discount on issue of debentures | 6 | |
| Trade payables | 12,45 | 675 | | | |
| | | | Profit and loss account | 12,33 | |
| | 95,85 | 60,30 | | 95,85 | 60,30 |

On 1.4.2016, Kanak Ltd. adopted the following scheme of reconstruction:

(i) Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.

(ii) Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.

(iii) Own debentures of ₹ 2,40,000 were sold at ₹ 98 cum-interest and remaining own debentures were cancelled.

(iv) Debenture holders of ₹ 8,40,000 agreed to accept one machinery of book value of ₹ 9,00,000 in full settlement.

(v) Trade payables, trade receivables and inventory were valued at ₹ 10,50,000, ₹ 17,70,000 and ₹ 10,80,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.

(vi) The Company paid ₹ 45,000 as penalty to avoid capital commitments of ₹ 9,00,000.

On 2.4.2016 a scheme of absorption was adopted. Kanak Ltd. would take over Ronak Ltd. The purchase consideration was fixed as below:

(a) Equity shareholders of Ronak Ltd. will be given 50 equity shares of ₹ 10 each fully paid up, in exchange for every 5 shares held in Ronak Ltd.

(b) Issue of 9% preference shares of ₹ 100 each in the ratio of 4 preference shares of Kanak Ltd. for every 5 preference shares held in Ronak Ltd.

(c) Issue of one 12% debenture of ₹ 100 each of Kanak Ltd. for each 12% debenture in Ronak Ltd.

You are required to give Journal entries in the books of Kanak Ltd. and draw the resultant Balance Sheet as at 2nd April, 2016

## Average Due Date

7. 'Mani' lent ₹ 50,000 to 'Prem' on 1st January, 2015. The amount is repayable in 5 half-yearly installments commencing from 1st January, 2016. Calculate the average due date and interest @ 10% per annum.

## Account Current

8. Following transactions took place between L and M during the month of April, 2016:

| *Date* | *Particulars* | ₹ |
|---|---|---|
| 1.4.2016 | Amount payable by L to M | 5,000 |
| 7.4.2016 | Received acceptance of L to M for 2 months | 2,500 |
| 10.4.2016 | Bills receivable (accepted by M) on 7.2.2016 is honoured on this due date | 5,000 |
| 10.4.2016 | L sold goods to M (due date 10.5.2016) | 7,500 |
| 12.4.2016 | L received cheque from M (due date 15.5.2016) | 3,750 |
| 15.4.2016 | M sold goods to L (due date 15.5.2016) | 3,000 |
| 20.4.2016 | L returned goods sold by M on 15.4.2016 | 500 |
| 20.4.2016 | Bill accepted by M is dishonoured on this due date | 2,500 |

Prepare M's account in the books of L for the month of April, 2016, taking interest into account @ 10% p.a.

## Self Balancing Ledgers

9. A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2016:

| | *(₹)* |
|---|---|
| Debit balances in Debtors Ledger on 01-04-2016 | 1,79,100 |
| Credit balances in Debtors Ledger on 01-04-2016 | 4,700 |
| Transactions during the month of April, 2016 are: | |
| Total Sales (including Cash Sales, ₹ 50,000) | 10,47,700 |

| | |
|---|---|
| Sales Returns | 16,550 |
| Cash received from debtors | 8,62,850 |
| Bills Receivable received from debtors | 47,500 |
| Bills Receivable dishonoured | 3,750 |
| Cash paid to debtors for returns | 3,000 |
| Transfers to Creditors Ledger | 8,000 |
| Credit balances in Debtors Ledger on 30-04-2016 | 4,900 |

## Financial Statements of Not for Profit Orgnisations

10. From the following data, prepare an Income and Expenditure Account for the year ended 31st December, 2016, and Balance Sheet as at that date of the Ganesh Hospital:

### Receipts and Payments Account for the year ended 31 December, 2016

| | *Receipts* | ₹ | | | *Payments* | | ₹ |
|---|---|---|---|---|---|---|---|
| To | Balance b/d | | | By | Salaries : | | |
| | Cash | 800 | | | (₹ 7,200 for 2015) | | 31,200 |
| | Bank | 5,200 | 6,000 | By | Hospital Equipment | | 17,000 |
| To | Subscriptions : | | | By | Furniture purchased | | 6,000 |
| | For 2015 | | 5,100 | By | Additions to Building | | 50,000 |
| | For 2016 | | 24,500 | By | Printing and Stationery | | 2,400 |
| | For 2017 | | 2,400 | | | | |
| To | Government Grant : | | | By | Diet expenses | | 15,600 |
| | For building | | 80,000 | By | Rent and rates | | |
| | For maintenance | | 20,000 | | (₹ 300 for 2017) | | 2,000 |
| | Fees from sundry | | | By | Electricity and water | | |
| | patients | | 4,800 | | charges | | 2,400 |
| To | Donations (not to be | | 8,000 | By | office expenses | | 2,000 |
| | capitalised) | | | By | Investments | | 20,000 |
| To | Net collections from | | | By | Balances : | | |
| | benefit shows | | 6,000 | | Cash | 1,400 | |
| | | | | | Bank | 6,800 | 8,200 |
| | | | 1,56,800 | | | | 1,56,800 |

| Additional information : | ₹ |
|---|---|
| Value of building under construction as on 31.12.2016 | 1,40,000 |
| Value of hospital equipment on 31.12.2016 | 51,000 |
| Building Fund as on 1.1. 2016 | 80,000 |
| Subscriptions in arrears as on 31.12.2015 | 6,500 |
| Investments in 8% Govt. securities were made on 1st July, 2016. | |

## Accounts from Incomplete Records

11. The following is the Balance Sheet of Chirag as on 31st March, 2015:

| *Liabilities* | ₹ | *Assets* | ₹ |
|---|---|---|---|
| Capital Account | 48,000 | Building | 32,500 |
| Loan | 15,000 | Furniture | 5,000 |
| Creditor | 31,000 | Motor car | 9,000 |
| | | Stock | 20,000 |
| | | Debtors | 17,000 |
| | | Cash in hand | 2,000 |
| | | Cash at bank | 8,500 |
| | 94,000 | | 94,000 |

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

(a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases

(b) On 1st April, 2015 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.

(c) Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2016 and ₹ 6,000 was paid by cheques.

(d) Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500, and Cash withdrawn from Bank ₹ 12,000.

(e) Gross profit as per last year's audited accounts was ₹ 30,000.

(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date.

## Hire Purchase Transactions

12. Moon purchased a machine on Hire Purchase System. The total cost price of the machine was ₹ 15,00,000 payable 20% down and four annual installments of ₹ 4,20,000, ₹ 3,90,000, ₹ 3,60,000 and ₹ 3,30,000 at the end of the 1st, year 2nd year, 3rd year and 4th year respectively. Calculate the interest included in each year's installment assuming that the sales were made at the beginning of the year.

## Investment Accounts

13. Mitthan holds 2,000, 15% Debentures of ₹ 100 each in Seema Industries Ltd. as on April 1, 2015 at a cost of ₹ 2,10,000. Interest is payable on June, 30 and December, 31 each year.

    On May 1, 2015, 1,000 debentures are purchased cum-interest at ₹ 1,07,000. On November 1, 2015, 1,200 debentures are sold ex-interest at ₹ 1,14,600. On November 30, 2015, 800 debentures are purchased ex-interest at ₹ 76,800. On December, 31, 2015, 800 debentures are sold cum-interest for ₹ 1,10,000.

You are required to prepare the Investment Account showing value of holdings on March 31, 2016 at cost, using FIFO Method.

## Insurance claim for loss of stock

14. Ram trader's godown caught fire on 29th August, 2016, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged incurring fire fighting expenses amounting to ₹ 2,350.

    The trader provides you the following additional information:

| | ₹ |
|---|---|
| Cost of stock on 1st April, 2015 | 3,55,250 |
| Cost of stock on 31st March, 2016 | 3,95,050 |
| Purchases during the year ended 31st March, 2016 | 28,39,800 |
| Purchases from 1st April, 2016 to the date of fire | 16,55,350 |
| Cost of goods distributed as samples for advertising from 1st April, 2016 to the date of fire | 20,500 |
| Cost of goods withdrawn by trader for personal use from 1st April, 2016 to the date of fire | 1,000 |
| Sales for the year ended 31st March, 2016 | 40,00,000 |
| Sales from 1st April, 2016 to the date of fire | 22,68,000 |

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for ₹ 4,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company.

### Issues in Partnership Accounts

15. The following was the Balance Sheet of 'Kamal' and 'Rani', who were sharing profits and losses in the ratio of 2:1 on 31.12.2015:

| *Liabilities* | ₹ | *Assets* | ₹ |
|---|---|---|---|
| Capital Accounts | | Plant and machinery | 24,00,000 |
| Kamal | 20,00,000 | Building | 18,00,000 |
| Rani | 10,00,000 | Sundry debtors | 6,00,000 |
| Reserves | 18,00,000 | Stock | 8,00,000 |
| Sundry creditors | 8,00,000 | Cash | 2,00,000 |
| Bills payable | 2,00,000 | | |
| | 58,00,000 | | 58,00,000 |

They agreed to admit 'Nisha' into the partnership on the following terms:

(i) The goodwill of the firm was fixed at ₹ 2,10,000.

(ii) That the value of stock and plant and machinery were to be reduced by 10%.

(iii) That a provision of 5% was to be created for doubtful debts.

(iv) That the building account was to be appreciated by 20%.

(v) There was an unrecorded liability of ₹ 20,000.

(vi) Investments worth ₹ 40,000 (Not mentioned in the Balance Sheet) were taken into account.

(vii) That the value of reserve, the values of liabilities and the values of assets other than cash are not to be altered.

(viii) 'Nisha' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital account of the partners and the Balance Sheet of the newly reconstituted firm.

### Accounting in Computerised Environment

16. Write any four disadvantages of Pre-packaged Accounting Software.

### AS 1 Disclosure of Accounting Policies

17. (a) Om Ltd. purchases goods on behalf of its customers for execution of work under a

works contract against which it receives full payment and necessary declaration form under Central Sales Tax Act to be passed on to the supplier. The company follows the practice of treating the same as its purchases and accordingly debits to its Profit and Loss Account. Give your views on the above.

AS 2 Valuation of Inventories

(b) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

AS 6 Depreciation Accounting

18. (a) Meena Ltd. has an equipment purchased 2 year ago for ₹ 1,90,000. The residual value of the asset was estimated to be ₹ 10,000. The total useful life of the asset when purchased was 12 years. The company charges Depreciation as per Straight Line Method. Due to price adjustment, the cost of the asset is now increased by ₹ 15,000. What is the treatment for the increase in historical cost? Comment and calculate the revised depreciation for the current year.

AS 7 Construction Contracts

(b) X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹ 490 lakhs. The agreement lays down values for each of the four outlets (₹ 88 + 132 + 160 + 110 lakhs) in addition to individual completion time. Comment whether X Ltd., will treat it as a single contract or four separate contracts.

AS 9 Revenue Recognition

19. (a) Khetan Ltd. has received two lakh subscriptions during the current year under its new scheme whereby customers are required to pay a sum of ₹ 4,500 for which they will be entitled to receive a magazine for a period of 3 years. Khetan wants to treat the entire amount as revenue for the current year. Comment.

AS 10 Accounting for Fixed Assets

(b) Alex Ltd. intends to set up a sollar plant. Alex Ltd. has acquired a dilapidated factory, having an area of 7,500 acres at a cost of ₹ 70,000 per acre. Alex Ltd. has incurred ₹ 50,00,000 on demolishing the old factory building thereon. A sum of ₹ 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site. Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges ₹ 5,00,000 for land acquisition and incurred ₹ 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired.

AS 13 Accounting for Investments

20. (a) Give your comments on the following situations, each being independent of the other.

1. Current Investments are valued at ₹ 60 Lakhs, being the cost of acquisition, fair value of these investments on the Balance Sheet date is ₹ 48 Lakhs.

2. Current investments were acquired at a cost of ₹ 86 lakhs whereas their fair market value as on the Balance Sheet Date was ₹ 90 lakhs. Due to insufficiency of profits from operations, the Company would like to recognize the profit on these investments for 'improving' its Financial Statements.

AS 14 Accounting for Amalgamations

(b) How are the balances in profit and loss account treated in the books of transfree company?

SUGGESTED ANSWERS / HINTS

1. (a) Balance Sheet of Kalyan Ltd. as at 31st March, 2016

| | | Note | ₹ |
|---|---|---|---|
| I | EQUITY AND LIABILITIES: | | |
| (1) | (a) Share Capital | 1 | 80,00,000 |
| | (b) Reserves and Surplus | 2 | 49,32,212 |
| (2) | Non-current Liabilities | | |
| | Long term Borrowings-Secured Borrowings – Terms Loans | | 20,00,000 |
| (3) | Current Liabilities | | |
| | (a) Trade Payables | - | 22,90,000 |
| | (b) Other current liabilities - Loan from other parties | | 4,00,000 |
| | (c) Short-term Provisions | 3 | 11,11,788 |
| | Total | | 1,87,34,000 |
| II | ASSETS | | |
| (1) | Non-current Assets | | |
| | (a) Fixed Assets: | | |
| | (i) Tangible Assets | 4 | 1,03,00,000 |
| | (ii) Capital WIP | | 4,00,000 |

| | | | |
|---|---|---|---|
| | (b) Non- current Investments | | 4,50,000 |
| (2) | Current Assets: | | |
| | (a) Inventories | 5 | 24,00,000 |
| | (b) Trade Receivables | 6 | 24,10,000 |
| | (c) Cash and Cash Equivalents | | 19,20,000 |
| | (d) Short-term Loans and Advances | 7 | 8,54,000 |
| | Total | | 1,87,34,000 |

Notes to accounts

| | | | (₹) |
|---|---|---|---|
| 1. | Share Capital | | |
| | Authorized, Issued, subscribed & called up | | |
| | 60,000, Equity Shares of ₹ 100 each | 60,00,000 | |
| | 20,000 10% Redeemable Preference Shares of 100 each | 20,00,000 | 80,00,000 |
| 2. | Reserves and Surplus | | |
| | Securities Premium Account | 9,50,000 | |
| | General reserve | 31,00,000 | |
| | Profit & Loss Balance | | |
| | Opening balance | | |
| | Profit for the period 16,00,000 | | |
| | *Less:* Miscellaneous Expenditure | | |
| | written off (1,16,000) | | |
| | 14,84,000 | | |
| | *Less*: Appropriations | | |
| | Proposed dividend (5,00,000) | | |
| | Dividend distribution tax (1,01,788) | 8,82,212 | 49,32,212 |
| 3. | Short-term provisions | | |
| | Provision for taxation | 5,10,000 | |
| | Proposed Dividend | 5,00,000 | |
| | Dividend Distribution tax [W.N] | 1,01,788 | 11,11,788 |
| 4. | Tangible assets | | |
| | Fixed Assets | | |
| | Opening balance | 1,13,00,000 | |

| | | | |
|---|---|---|---|
| | *Less:* Depreciation | (10,00,000) | |
| | Closing balance | | 1,03,00,000 |
| 5. | **Inventories** | | |
| | Finished Goods | 15,00,000 | |
| | Stores | 8,00,000 | |
| | Loose Tools | 1,00,000 | 24,00,000 |
| 6. | **Trade Receivables** | | |
| | Trade receivables | 24,50,000 | |
| | Less: Provision for Doubtful Debts | (40,000) | 24,10,000 |
| 7. | **Short term loans & Advances** | | |
| | Staff Advances | 1,10,000 | |
| | Other Advances | 7,44,000 | 8,54,000 |

Working Note:

Calculation of Dividend distribution tax

(i) Grossing-up of dividend:

| | | ₹ |
|---|---|---|
| Dividend distributed by Kalyan Ltd. | | |
| Equity shares dividend | 3,00,000 | |
| Preference share dividend | 2,00,000 | 5,00,000 |
| *Add:* Increase for the purpose of grossing up of dividend 5,00,000 x [15 /(100-15)] | | 88,235 |
| Gross dividend | | 5,88,235 |

(ii) Dividend distribution tax @ 17.304% 1,01,788

(b) Computation of effective capital:

| | *Where Star Ltd. is a non-investment company* ₹ | *Where Star Ltd. is an investment company* ₹ |
|---|---|---|
| Paid-up share capital — | | |
| 45,000, 14% Preference shares | 45,00,000 | 45,00,000 |
| 3,60,000 Equity shares | 2,88,00,000 | 2,88,00,000 |
| Capital reserves | 1,35,000 | 1,35,000 |
| Securities premium | 1,50,000 | 1,50,000 |

| | | |
|---|---|---|
| 15% Debentures | 1,95,00,000 | 1,95,00,000 |
| Public Deposits | 11,10,000 | 11,10,000 |
| (A) | 5,41,95,000 | 5,41,95,000 |
| Investments | 2,25,00,000 | — |
| Profit and Loss account (Dr. balance) | 45,75,000 | 45,75,000 |
| (B) | 2,70,75,000 | 45,75,000 |
| Effective capital (A–B) | 2,71,20,000 | 4,96,20,000 |

2. In the books of Fan Ltd.

Cash Flow Statement for the year ending 31st March, 2016

| | | ₹ | ₹ |
|---|---|---|---|
| I | Cash flow from Operating Activities | | |
| | Net Profit before tax for the year (W.N.1) | 67,500 | |
| | *Add*: Depreciation on machinery (W.N.2) | 27,500 | |
| | Depreciation on land & building | 10,000 | |
| | Operating profit before change in working capital | 1,05,000 | |
| | *Add*: Decrease in Inventories | 10,000 | |
| | *Less*: Increase in Trade receivables | (10,000) | |
| | *Less*: Decrease in Trade payables | (50,000) | |
| | Cash generated from Operations | 55,000 | |
| | *Less*: Income tax paid (W.N.3) | (22,500) | |
| | Net cash generated from operating activities | | 32,500 |
| II | Cash flow from Investing activities | | |
| | Purchase of machinery (1,12,500 – 50,000) | (62,500) | |
| | Sale of investment (W.N. 4) | 30,000 | |
| | Net cash used in investing activities | | (32,500) |
| III | Cash flow from financing activities | | |
| | Issue of equity shares (1,25,000-50,000) | 75,000 | |
| | Repayment of long term loan | (50,000) | |
| | Net cash generated from financing activities | | 25,000 |
| | Net increase in cash and cash equivalents | | 25,000 |
| | Cash and cash equivalents at the beginning of the year (1,00,000 + 1,50,000) | | 2,50,000 |
| | Cash and cash equivalents at the end of the year (70,000+2,05,000) | | 2,75,000 |

Working Notes:

1. Calculation of Net Profit before tax

| | ₹ |
|---|---|
| Increase in Profit & Loss (Cr.) balance | 40,000 |
| *Add*: Provision for taxation made during the year | 27,500 |
| | 67,500 |

2. Calculation of Depreciation charged during the year

Machinery account

| *Particulars* | *Amount (₹)* | *Particulars* | *Amount (₹)* |
|---|---|---|---|
| To Balance b/d | 3,75,000 | By Depreciation (Bal.fig.) | 27,500 |
| To Bank | 62,500 | By Balance c/d | 4,60,000 |
| To Equity share capital | 50,000 | | |
| | 4,87,500 | | 4,87,500 |

3. Calculation of tax paid during the year

Provision for Taxation A/c

| *Particulars* | *Amount (₹)* | *Particulars* | *Amount (₹)* |
|---|---|---|---|
| To Cash (Bal.fig.) | 22,500 | By Balance b/d | 25,000 |
| To Balance c/d | 30,000 | By Profit and Loss A/c | 27,500 |
| | 52,500 | | 52,500 |

4. Calculation of sale value of investment sold

Investment A/c

| *Particulars* | *Amount (₹)* | *Particulars* | *Amount (₹)* |
|---|---|---|---|
| To Balance b/d | 50,000 | By Bank A/c (Bal.fig.) | 30,000 |
| To Capital reserve (Profit on sale of investments) | 5,000 | By Balance c/d | 25,000 |
| | 55,000 | | 55,000 |

3. Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

For the year ended 31st March, 2016

| *Particulars* | *Total Amount* | *Basis of Allocation* | *Pre-incorporation* | *Post-incorporation* |
|---|---|---|---|---|
| Gross Profit | 7,81,600 | Sales | 78,160 | 7,03,440 |
| *Less*: Directors' fee | 60,000 | Post | | 60,000 |
| Bad debts | 14,400 | Sales | 1,440 | 12,960 |
| Advertising | 48,000 | Time | 12,000 | 36,000 |
| Salaries & general expenses | 2,56,000 | Time | 64,000 | 1,92,000 |
| Preliminary expenses | 20,000 | Post | | 20,000 |
| Donation to Political Party | 20,000 | Post | | 20,000 |
| Net Profit | 3,63,200 | | | 3,62,480 |
| Pre-incorporation profit transfered to Capital Reserve | | | 720 | |

Working Notes:

1. Sales ratio

| *Particulars* | ₹ |
|---|---|
| Sales for period up to 30.06.2015 (9,60,000 x 3/6) | 4,80,000 |
| Sales for period from 01.07.2015 to 31.03.2016 (48,00,000 – 4,80,000) | 43,20,000 |

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 2015 to 30 June, 2015: 1st July, 2015 to 31st March, 2016

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

4. Journal Entries in the books of Sona Ltd.

| | | | ₹ | ₹ |
|---|---|---|---|---|
| 1-4-2016 | Equity share final call A/c | Dr. | 5,40,000 | |
| | To Equity share capital A/c | | | 5,40,000 |
| | (For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....) | | | |

| | | | | |
|---|---|---|---|---|
| 20-4-2016 | Bank A/c | Dr. | 5,40,000 | |
| | To Equity share final call A/c | | | 5,40,000 |
| | (For final call money on 2,70,000 equity shares received) | | | |
| | Securities Premium A/c | Dr. | 75,000 | |
| | Capital Reserve A/c | Dr. | 1,20,000 | |
| | General Reserve A/c | Dr. | 3,60,000 | |
| | Profit and Loss A/c | Dr. | 1,20,000 | |
| | To Bonus to shareholders A/c | | | 6,75,000 |
| | (For making provision for bonus issue of one share for every four shares held) | | | |
| | Bonus to shareholders A/c | Dr. | 6,75,000 | |
| | To Equity share capital A/c | | | 6,75,000 |
| | (For issue of bonus shares) | | | |

Extract of Notes to Accounts of the Balance Sheet as at 30th April, 2016
(after bonus issue)

| | ₹ |
|---|---|
| Authorised Capital | |
| 30,000 12% Preference shares of ₹ 10 each | 3,00,000 |
| 3,67,500 Equity shares of ₹ 10 each (W.N.) | 36,75,000 |
| Issued and subscribed capital | |
| 24,000 12% Preference shares of ₹ 10 each, fully paid | 2,40,000 |
| 3,37,500 Equity shares of ₹ 10 each, fully paid | 33,75,000 |
| (Out of above, 67,500 equity shares @ ₹ 10 each were issued by way of bonus) | |
| Reserves and surplus | |
| Profit and Loss Account | 4,80,000 |

Working Note:

| The authorized capital should be increased as per details given below: | ₹ |
|---|---|
| Existing authorized Equity share capital | 30,00,000 |
| *Add:* Issue of bonus shares to equity shareholders (25% of ₹ 27,00,000) | 6,75,000 |
| | 36,75,000 |

5. In the books of Preet Limited

Journal Entries

| | | | ₹ | ₹ |
|---|---|---|---|---|
| (i) | Equity Share Capital (₹ 100) A/c | Dr. | 20,00,000 | |
| | To Share Surrender A/c | | | 10,00,000 |
| | To Equity Share Capital (₹ 10) A/c | | | 10,00,000 |
| | (Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme) | | | |
| (ii) | 15% Debentures A/c | Dr. | 3,00,000 | |
| | Accrued Interest A/c (proportionate 50%) | Dr. | 45,000 | |
| | To Reconstruction A/c | | | 3,45,000 |
| | (Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme) | | | |
| (iii) | Trade payables A/c | Dr. | 1,04,000 | |
| | To Reconstruction A/c | | | 1,04,000 |
| | (Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount) | | | |
| (iv) | Share Surrender A/c | Dr. | 10,00,000 | |
| | To 10% Preference Share Capital A/c | | | 2,00,000 |
| | To Equity Share Capital A/c | | | 78,000 |
| | To Reconstruction A/c | | | 7,22,000 |
| | (Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account) | | | |
| (v) | Reconstruction A/c | Dr. | 11,71,000 | |
| | To Profit & Loss A/c | | | 11,60,000 |

| | | | |
|---|---|---|---|
| | To Capital Reserve A/c<br>(Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account) | | 11,000 |

Preet Limited (and reduced)

Balance Sheet as on 31st March, 2016

| | *Particulars* | *Notes No.* | ₹ |
|---|---|---|---|
| | Equity and Liabilities | | |
| 1 | Shareholders' funds | | |
| | a) Share capital | 1 | 12,78,000 |
| | b) Reserves and Surplus | 2 | 11,000 |
| 2 | Non-current liabilities | | |
| | Long-term borrowings | 3 | 3,00,000 |
| 3 | Current liabilities | | |
| | a) Other current liabilities | 4 | 45,000 |
| | b) Short-term provisions | 5 | 72,000 |
| | Total | | 17,06,000 |
| | Assets | | |
| 1 | Non-current assets | | |
| | a) Fixed assets | | |
| | i) Tangible assets | 6 | 7,00,000 |
| 2 | Current assets | | |
| | a) Inventories | | 5,06,000 |
| | b) Trade receivables | | 4,60,000 |
| | c) Cash and cash equivalents | 7 | 40,000 |
| | Total | | 17,06,000 |

Notes to Accounts

| | | ₹ |
|---|---|---|
| 1. | Share Capital | |
| | 1,07,800, Equity shares of ₹ 10 each | 10,78,000 |
| | 20,000, 10% Preference shares of ₹ 10 each | 2,00,000 |
| | | 12,78,000 |

| | | |
|---|---|---|
| | (all the above shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares) | |
| 2. | **Reserves and Surplus** | |
| | Capital Reserves | 11,000 |
| 3. | **Long-term borrowings** | |
| | Unsecured | |
| | 15% Debentures | 3,00,000 |
| 4. | **Other current liabilities** | |
| | Accrued Interest on 15% Debentures | 45,000 |
| 5. | **Short-term provisions** | |
| | Provision for income tax | 72,000 |
| 6. | **Tangible assets** | |
| | Machineries | 7,00,000 |
| 7. | **Cash and cash equivalents** | |
| | Balances with banks | 40,000 |

6. In the Books of Kanak Ltd.

| *01.04.2016* | *Particulars* | | *Dr. Amount* ₹ | *Cr. Amount* ₹ |
|---|---|---|---|---|
| | Equity share capital A/c | Dr. | 45,00,000 | |
| | To Equity share capital A/c | | | 45,00,000 |
| | (Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each) | | | |
| | Equity share capital A/c | Dr. | 22,50,000 | |
| | To Capital reduction A/c | | | 22,50,000 |
| | (Being reduction of Equity capital by 50%) | | | |
| | Capital reduction A/c | Dr. | 40,500 | |
| | To Bank A/c | | | 40,500 |
| | (Being payment in cash of 10% of arrear of preference dividend) | | | |
| | Bank A/c (2,400 x 98) | Dr. | 2,35,200 | |
| | To Own debentures A/c (2,400 x 96) | | | 2,30,400 |
| | To Capital reduction A/c | | | 4,800 |
| | (Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c) | | | |

| | | | | |
|---|---|---|---|---|
| | 12% Debentures A/c | Dr. | 3,60,000 | |
| | To Own debentures A/c | | | 3,45,600 |
| | To Capital reduction A/c | | | 14,400 |
| | (Being profit on cancellation of own debentures transferred to capital reduction A/c) | | | |
| | 12% Debentures A/c | Dr. | 8,40,000 | |
| | Capital reduction A/c | Dr. | 60,000 | |
| | To Machinery A/c | | | 9,00,000 |
| | (Being machinery taken up by debenture holders for ₹ 8,40,000) | | | |
| | Trade payables A/c | Dr. | 1,95,000 | |
| | Capital reduction A/c (balancing figure) | Dr. | 87,000 | |
| | To Trade receivables A/c | | | 1,83,000 |
| | To Inventory A/c | | | 99,000 |
| | (Being assets and liabilities revalued) | | | |
| | Capital reduction A/c | Dr. | 12,99,000 | |
| | To Goodwill A/c | | | 60,000 |
| | To Discount on debentures A/c | | | 6,000 |
| | To Profit and Loss A/c | | | 12,33,000 |
| | (Being the above assets written off) | | | |
| | Capital reduction A/c | Dr. | 45,000 | |
| | To Bank A/c | | | 45,000 |
| | (Being penalty paid for avoidance of capital commitments) | | | |
| | Capital reduction A/c | Dr. | 7,37,700 | |
| | To Capital reserve A/c | | | 7,37,700 |
| | (Being the credit balance in Capital Reduction A/c transferred to Capital Reserve) | | | |
| 02.04.2016 | | | | |
| | Business Purchase A/c | Dr. | 39,60,000 | |
| | To Liquidators of Ronak Ltd. | | | 39,60,000 |
| | (Being the purchase consideration payable to Ronak Ltd.) | | | |
| | Fixed Assets A/c | Dr. | 22,80,000 | |
| | Inventory A/c | Dr. | 20,40,000 | |
| | Trade receivables A/c | Dr. | 13,20,000 | |
| | Cash at Bank A/c | Dr. | 3,90,000 | |
| | To Trade payables A/c | | | 6,75,000 |
| | To 12% Debentures A/c of Ronak Ltd. | | | 6,00,000 |

| | | | | |
|---|---|---|---|---|
| | To Profit and Loss A/c | | | 45,000 |
| | To General reserve A/c ₹ (5,10,000+2,40,000*) | | | 7,50,000 |
| | To Business purchase A/c | | | 39,60,000 |
| | (Being the take over of all assets and liabilities of Ronak Ltd. by Kanak Ltd.) | | | |
| | Liquidators of Ronak Ltd. A/c | Dr. | 39,60,000 | |
| | To Equity Share Capital | | | 30,00,000 |
| | To 9% Preference share capital | | | 9,60,000 |
| | (Being the purchase consideration discharged) | | | |
| | 12% Debentures of Ronak Ltd. A/c | Dr. | 6,00,000 | |
| | To 12% Debentures A/c | | | 6,00,000 |
| | (Being Kanak Ltd. issued their 12% Debentures in against of every Debentures of Ronak Ltd.) | | | |

Balance Sheet of Kanak Ltd. as at 2.4.2016

| *Particulars* | *Note No* | *Amount(₹)* |
|---|---|---|
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 77,10,000 |
| (b) Reserves and Surplus | 2 | 20,72,700 |
| (2) Non-current Liabilities | | |
| (a) Long-term borrowings - 12% Debentures | | 12,00,000 |
| (3) Current Liabilities | | |
| (a) Trade payables | | 17,25,000 |
| Total | | 1,27,07,700 |
| II. Assets | | |
| (1) Non-current assets | | |
| (a) Fixed assets | | |
| (i) Tangible assets | | 58,80,000 |
| (2) Current assets | | |
| (a) Inventories | | 31,20,000 |
| (b) Trade receivables | | 30,90,000 |
| (c) Cash and cash equivalents | | 6,17,700 |
| Total | | 1,27,07,700 |

* ₹ 2,40,000 is the balancing figure adjusted to general reserve A/c as per AS 14 "Accounting for Amalgamation".

Notes to Accounts

| | | | ₹ |
|---|---|---|---|
| 1 | Share Capital | | |
| | Equity Share Capital | | 52,50,000 |
| | 9% Preference share capital | | 24,60,000 |
| | | | 77,10,000 |
| 2 | Reserves and Surplus | | |
| | Profit and Loss A/c | | 45,000 |
| | General Reserve | | |
| | Share Capital of Ronak Ltd. (Equity + Preference) | 42,00,000 | |
| | *Less:* Share Capital issued by Kanak Ltd. | 39,60,000 | |
| | General reserve (resulted due to absorption) | 2,40,000 | |
| | *Add:* General reserve of Ronak Ltd. | 5,10,000 | |
| | General reserve of Kanak Ltd. | 5,40,000 | 12,90,000 |
| | Capital Reserve | | 7,37,700 |
| | | | 20,72,700 |

Working Notes:

1. Arrear dividend to Preference Shareholders

   Preference Share Capital ₹ 15,00,000 @ 9% will yield dividend of ₹ 1,35,000 per year and for 3 years = ₹ 4,05,000. Out of this only 10% is paid and the balance is waived off. Hence, amount paid = ₹ 40,500.

2. Profit on redemption of own debentures

   Own Debentures with Nominal Value of ₹ 2,40,000 sold for ₹ 98 per deb = 2,40,000 x 98/100 = ₹ 2,35,200.

   Book Value = ₹ 5,76,000/ 6,00,000 X 2,40,000 = ₹ 2,30,400. Profit on own debentures sold = ₹ 2,35,200 – ₹ 2,30,400 = ₹ 4,800

   Balance of Own Debentures = ₹ 5,76,000 – 2,30,400 = ₹ 3,45,600 which are cancelled

3. Purchase Consideration

| | |
|---|---|
| Equity share capital 30,000 x 50/5 x 10 | = 30,00,000 |
| 9% Preference share capital 12,000 x 4/5 x 100 | = 9,60,000 |
| | ₹ 39,60,000 |

7. 1st payment is made after 12 months from the date of loan.

2nd payment is made after 18 months from the date of loan.

3rd payment is made after 24 months from the date of loan.

4th payment is made after 30 months from the date of loan.

5th payment is made after 36 months from the date of loan.

Sum of the months =120

Average due date =

$$\text{Date of loan} + \frac{\text{Sum of months from 1st January, 2016 to the date of each installment}}{\text{Number of installments}}$$

$$= 1^{st} \text{ January, 2015} + \frac{120 \text{ months}}{5}$$

$= 1^{st}$ January, 2015+ 24 months

$= 1^{st}$ January, 2017

Interest = ₹ 50,000 x 10/100 x 2 years =₹10,000

8.

**‘M’ In Account Current with ‘L’**

(Interest to 30th April, 2016 @ 10% p.a.)

| Date | Particulars | Due Date | Amount ₹ | Days | Product | Date | Particulars | Due Date | Amount ₹ | Days | Product |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | | 2016 | | | | 2016 | | 2016 | | | |
| 7 April | To Bills Payable | 10 June | 2,500 | - | - | 1 April | By Balance b/d | | 5,000 | 30 | 1,50,000 |
| 10 April | To Sales A/c | 10 May | 7,500 | - | - | 12 April | By Bank A/c (Cheque received dated 15.5. 2016) | 15 May | 3,750 | - | - |
| 20 April | To Purchase Returns | 15 May | 500 | - | - | 15 April | By Purchase A/c (invoice dated 15.5.2016) | 15 May | 3,000 | - | - |
| 20 April | To Bill Receivable A/c | 20 April | 2,500 | 10 | 25,000 | | | | | | |
| 30 April | To Red Ink Product as per contra (₹ 7,500 x 15) | 15 May | - | 15 | 56,250 | 30 April | By Red Ink Product as per contra (2,500 x 41) | 10 June | - | 41 | 1,02,500 |
| 30 April | To Red Ink Product as per contra (₹ 6,000 x 15) | 15 May | - | 15 | 45,000 | 30 April | By Red Ink Product as per contra (7,500 x 10) | 10 May | - | 10 | 75,000 |
| 30 April | To Balance of product | | | | 2,08,750 | 30 April | By Red Ink Product as per contra (500 x 15) | 15 May | - | 15 | 7,500 |
| | | | | | | 30 April | By Interest A/c [2,08,750 x 10/ 100]/ 365 | | 57.19 | | |
| | | | | | | 30 April | By Balance c/d | | 1,192.81 | | |
| | | | 13,000 | | 3,35,000 | | | | 13,000 | | 3,35,000 |

No entry is required for bill matured on 10th April since party is not contracted.

9. General Ledger Adjustment Account in Debtors Ledger

| *Date* | *Particulars* | ₹ | *Date* | *Particulars* | ₹ |
|---|---|---|---|---|---|
| 01.04.2016 | To Balance b/d | 4,700 | 1.4.2016 | By Balance b/d | 1,79,100 |
| 01.04.2016 to 30.4.2016 | To Debtors ledger adjustment A/c : | | 01.04.2016 to 30.4.2016 | By Debtors ledger adjustment A/c : | |
| | Cash received | 8,62,850 | | Credit sales | 9,97,700 |
| | Sales Returns | 16,550 | | Cash paid for returns | 3,000 |
| | Bills receivable received | 47,500 | | Bills receivable dishonoured | 3,750 |
| | Transfer to creditors ledger | 8,000 | 30.04.2016 | By Balance c/d | 4,900 |
| 30.04.2016 | To Balance c/d (bal.fig) | 2,48,850 | | | |
| | | 11,88,450 | | | 11,88,450 |

10. Ganesh hospital

Income & Expenditure Account
for the year ended 31 December, 2016

| *Expenditure* | ₹ | *Income* | ₹ |
|---|---|---|---|
| To Salaries | 24,000 | By Subscriptions | 24,500 |
| To Diet expenses | 15,600 | By Govt. Grants (Maintenance) | 20,000 |
| To Rent & Rates | 1,700 | By Fees, Sundry Patients | 4,800 |
| To Printing & Stationery | 2,400 | By Donations | 8,000 |
| To Electricity & Water-charges | 2,400 | By Benefit shows (net collections) | 6,000 |
| To Office expenses | 2,000 | By Interest on Investments | 800 |
| To Excess of Income over expenditure transferred to Capital Fund | 16,000 | | |
| | 64,100 | | 64,100 |

Balance Sheet as at 31st Dec., 2016

| *Liabilities* | ₹ | ₹ | *Assets* | ₹ | ₹ |
|---|---|---|---|---|---|
| Capital Fund : | | | Building : | | |
| Opening balance | 49,300 | | Opening balance | 90,000 | |
| Excess of Income | | | Addition | 50,000 | 1,40,000 |

| | | | | | |
|---|---|---|---|---|---|
| Over Expenditure | 16,000 | 65,300 | Hospital Equipment : | | |
| Building Fund : | | | Opening balance | 34,000 | |
| Opening balance | 80,000 | | Addition | 17,000 | 51,000 |
| *Add :* Govt. Grant | 80,000 | 1,60,000 | Furniture | | 6,000 |
| Subscriptions | | | Investments- | | |
| received in advance | | 2,400 | 8% Govt. Securities | | 20,000 |
| | | | Subscriptions receivable | | 1,400 |
| | | | Accrued interest | | 800 |
| | | | Prepaid expenses (Rent) | | 300 |
| | | | Cash at Bank | | 6,800 |
| | | | Cash in hand | | 1,400 |
| | | 2,27,700 | | | 2,27,700 |

Working Notes:

(1) Balance sheet as at 31st Dec., 2015

| *Liabilities* | ₹ | *Assets* | ₹ |
|---|---|---|---|
| Capital Fund | | Building | 90,000 |
| (Balancing Figure) | 49,300 | Equipment | 34,000 |
| Building Fund | 80,000 | Subscription Receivable | 6,500 |
| Creditors for Expenses : | | Cash at Bank | 5,200 |
| Salaries payable | 7,200 | Cash in hand | 800 |
| | 1,36,500 | | 1,36,500 |

| | | ₹ |
|---|---|---|
| (2) | **Building** | |
| | Balance on 31st Dec. 2016 | 1,40,000 |
| | Paid during the year | (50,000) |
| | Balance on 31st Dec. 2015 | 90,000 |
| (3) | **Equipment** | |
| | Balance on 31st Dec. 2016 | 51,000 |
| | Paid during the year | (17,000) |
| | Balance on 31st Dec. 2015 | 34,000 |
| (4) | **Subscription due for 2015** | |
| | Receivable on 31st Dec. 2015 | 6,500 |
| | Received in 2016 | (5,100) |
| | Still Receivable for 2015 | 1,400 |

11. **Trading and Profit and Loss Account**

**For the year ending on 31st March, 2016**

| *Particulars* | | ₹ | *Particulars* | ₹ |
|---|---|---|---|---|
| To Opening Stock | | 20,000 | By Sales | 1,80,000 |
| To Purchases (bal.fig.); | | 1,54,000 | By Closing Stock | 30,000 |
| To Gross Profit c/d (@20% on sales) | | 36,000 | | 2,10,000 |
| | | 2,10,000 | | |
| To Sundry Business Expenses | | 20,000 | By Gross Profit b/d | 36,000 |
| To Depreciation on Building | 1,625 | | | |
| Furniture | 250 | | | |
| Motor | 1,800 | 3,675 | | |
| To Net profit transferred to Capital A/c | | 12,325 | | |
| | | 36,000 | | 36,000 |

**Balance Sheet as at 31st March, 2016**

| *Liabilities* | | ₹ | *Assets* | | ₹ |
|---|---|---|---|---|---|
| **Capital Account:** | | | Building | 32,500 | |
| Opening Balance | 48,000 | | *Less:* Depreciation | (1,625) | 30,875 |
| *Add:* Net profit | 12,325 | | Furniture | 5,000 | |
| | 60,325 | | *Less:* Depreciation | (250) | 4,750 |
| *Less:* Drawings | (7,500) | 52,825 | Motor Car | 9,000 | |
| Loan | | 15,000 | *Less:* Depreciation | (1,800) | 7,200 |
| Sundry Creditors | | 47,500 | Stock in trade | | 30,000 |
| Outstanding Expenses | | 5,000 | Sundry Debtors | | 21,000 |
| | | | Cash at Bank | | 22,000 |
| | | | Sundry Advances (Amount recoverable from Cashier) | | 4,500 |
| | | 1,20,325 | | | 1,20,325 |

Working Notes:

(i) Total Debtors Account

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 17,000 | By Bank (₹ 1,40,000 – ₹ 35,000) | 1,05,000 |
| To Sales (80% of ₹ 1,80,000) | 1,44,000 | By Cash A/c | 35,000 |
| | | By Balance c/d | 21,000 |
| | 1,61,000 | | 1,61,000 |

(ii) Total Creditors Account

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank | 1,37,500 | By Balance b/d | 31,000 |
| To Balance c/d | 47,500 | By Purchases | 1,54,000 |
| | 1,85,000 | | 1,85,000 |

(iii) Cash Book

| Particulars | Cash ₹ | Bank ₹ | Particulars | Cash ₹ | Bank ₹ |
|---|---|---|---|---|---|
| To Balance b/d | 2,000 | 8,500 | By Business Expenses | 9,000 | 6,000 |
| To Sales | 36,000 | - | By Drawings | - | 7,500 |
| To Sundry Debtors | 35,000 | 1,05,000 | By Sundry Creditors | - | 1,37,500 |
| To Cash (Contra) | - | 71,500 | By Bank (Contra) | 71,500 | - |
| To Bank (Contra) | 12,000 | | By Cash (Contra) | - | 12,000 |
| | | | By Defalcation (Bal fig.) | 4,500 | - |
| | | | By Balance c/d (Bal fig.) | | 22,000 |
| | 85,000 | 1,85,000 | | 85,000 | 1,85,000 |

(iv) Last year's Total Sales = Gross Profit x 100/20 = ₹ 30,000 x 100/20 = ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000+ 20% of ₹ 1,50,000= ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 x 80%= ₹ 1,44,000

(vii) Cost of Goods Sold = Sales – G.P. = ₹1,80,000 – ₹ 36,000 = ₹ 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock

= 1,44,000 + ₹ 30,000 – ₹ 20,000 = ₹ 1,54,000

12. (a) Calculation of Interest for each year:

| | | | |
|---|---|---|---|
| Interest for 1st year | = | ₹ 3,00,000 x 150/360 = | ₹ 1,25,000 |
| Interest for 2nd year | = | ₹ 3,00,000 x 108/360 = | ₹ 90,000 |
| Interest for 3rd year | = | ₹ 3,00,000 x 69/360 = | ₹ 57,500 |
| Interest for 4th year | = | ₹ 3,00,000 x 33/360 = | ₹ 27,500 |
| | | | ₹ 3,00,000 |

Working Notes:

1. Hire Purchase Price = Down Payment + Instalments

   =₹ 3,00,000+(₹ 4,20,000 + ₹ 3,90,000 + ₹ 3,60,000 + ₹ 3,30,000)

   = 18,00,000

2. Total Interest = H.P. Price – Cash Price

   = 18,00,000 – ₹ 15,00,000 = ₹ 3,00,000

3. Calculation of ratio of hire purchase price outstanding in the beginning of each year

| *A Year* | *B Outstanding Hire Purchase Price in the Beginning of each Year* | *C Instalment Paid* | *D = B - C Outstanding Hire Purchase Price at the End of each Year* |
|---|---|---|---|
| I | 15,00,000 | 4,20,000 | 10,80,000 |
| II | 10,80,000 | 3,90,000 | 6,90,000 |
| III | 6,90,000 | 3,60,000 | 3,30,000 |
| IV | 3,30,000 | 3,30,000 | Nil |

Ratio of Outstanding Hire Purchase Price at the beginning of year = 150:108:69:33

13. Investment Account of Mitthan

For the year ended 31.3.2016

(Script: 15% Debentures in Seema Industries Ltd.)

(Interest payable on 30th June and 31st December)

| Date | Particulars | Nominal Value ₹ | Interest ₹ | Cost ₹ | Date | Particulars | Nominal Value ₹ | Interest ₹ | Cost ₹ |
|---|---|---|---|---|---|---|---|---|---|
| 1.04.15 | To Balance A/c | 2,00,000 | 7,500 | 2,10,000 | 30.06.15 | By Bank A/c | - | 22,500 | |
| 1.05.15 | To Bank A/c | 1,00,000 | 5,000 | 1,02,000 | 1.11.15 | By Bank A/c | 1,20,000 | 6,000 | 1,14,600 |
| 30.11.15 | To Bank A/c | 80,000 | 5,000 | 76,800 | 1.11.15 | By Profit & Loss A/c | - | - | 11,400 |
| 31.12.15 | To Profit & | | | 20,000 | 31.12.15 | By Bank A/c | 80,000 | 6,000 | 1,04,000 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Loss A/c | | | | | | | | |
| 31.03.16 | To Profit & Loss A/c | | 37,250 | | 31.12.15 | By Bank A/c | - | 13,500 | - |
| | (Bal. fig.) | | | | 31.12.15 | By Bank A/c | - | 6,750 | - |
| | | | | | 31.3.16 | By Bal. c/d | 1,80,000 | - | 1,78,800 |
| | | 3,80,000 | 54,750 | 4,08,800 | | | 3,80,000 | 54,750 | 4,08,800 |

Working Notes:

(i) Accrued Interest as on 1st April, 2015 = ₹ 2,00,000 x $\frac{15}{100} \times \frac{3}{12} =$ ₹ 7,500

(ii) Accrued Interest as on 1.5.2015 = ₹ 1,00,000 x $\frac{15}{100} \times \frac{4}{12} =$ ₹ 5,000

(iii) Cost of Investment for purchase on 1st May = ₹ 1,07,000 – ₹ 5,000 = ₹ 1,02,000

(iv) Interest received as on 30.6.2015 = ₹ 3,00,000 x $\frac{15}{100} \times \frac{6}{12} =$ ₹ 22,500

(v) Accrued Interest on debentures sold on 1.11.2015

= ₹ 1,20,000 x $\frac{15}{100} \times \frac{4}{12} =$ ₹ 6,000

(vi) Accrued Interest = ₹ 80,000 x $\frac{15}{100} \times \frac{5}{12} =$ ₹ 5,000

(vii) Accrued Interest on sold debentures 31.12.2015 = ₹ 80,000 x $\frac{15}{100} \times \frac{6}{12} =$ ₹ 6,000

(viii) Sale Price of Investment on 31st Dec. = ₹ 1,10,000-₹ 6,000 = ₹ 1,04,000

(ix) Loss on Sale of Debenture on 1.1.2015

| | |
|---|---|
| Sale Price of debenture | 1,14,600 |
| *Less:* Cost Price of debenture | |
| $\frac{2,10,000}{2,00,000}$ x ₹ 1,20,000 | 1,26,000 |
| Loss on sale | 11,400 |

(x) Accrued interest as on 31.12.2015 = ₹ 1,80,000 x $\frac{15}{100} \times \frac{6}{12} =$ ₹ 13,500

(xi) Accrued Interest = ₹ 1,80,000 x $\frac{15}{100} \times \frac{3}{12} =$ ₹ 6,750

(xii) Cost of investment as on 31st March = ₹ 1,02,000 + ₹ 76,800 = ₹ 1,78,800

(xiii) Profit on debentures sold on 31st December

= ₹ 1,04,000 –(₹ 2,10,000x800/2,000) =₹ 20,000

14. Memorandum Trading Account for the period 1st April, 2016 to 29th August 2016

| | | ₹ | | ₹ |
|---|---|---|---|---|
| To Opening Stock | | 3,95,050 | By Sales | 22,68,000 |
| To Purchases | 16,55,350 | | By Closing stock (Bal. fig.) | 4,41,300 |
| *Less:* Advertisement | (20,500) | | | |
| Drawings | (1,000) | 16,33,850 | | |
| To Gross Profit [30% of Sales] [W N] | | 6,80,400 | | |
| | | 27,09,300 | | 27,09,300 |

Statement of Insurance Claim

| | ₹ |
|---|---|
| Value of stock destroyed by fire | 4,41,300 |
| *Less:* Salvaged Stock | (54,000) |
| *Add:* Fire Fighting Expenses | 2,350 |
| Insurance Claim | 3,89,650 |

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ 3,89,650 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2016

| | ₹ | | ₹ |
|---|---|---|---|
| To Opening Stock | 3,55,250 | By Sales | 40,00,000 |
| To Purchases | 28,39,800 | By Closing stock | 3,95,050 |
| To Gross Profit | 12,00,000 | | |
| | 43,95,050 | | 43,95,050 |

Rate of Gross Profit in 2015-16

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = 12,00,000/40,00,000 \text{ x } 100 = 30\%$$

15. **Memorandum Revaluation Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Stock | 80,000 | By Building | 3,60,000 |
| To Plant & machinery | 2,40,000 | By Investments | 40,000 |
| To Provision for doubtful debts | 30,000 | | |
| To Unrecorded liability | 20,000 | | |
| To Profit transferred to Partners' Capital A/cs (in old ratio) | | | |
| Kamal = 20,000 | | | |
| Rani = 10,000 | 30,000 | | |
| | 4,00,000 | | 4,00,000 |
| To Building | 3,60,000 | By Stock | 80,000 |
| To Investments | 40,000 | By Plant & machinery | 2,40,000 |
| | | By Provision for doubtful debts | 30,000 |
| | | By Unrecorded liability | 20,000 |
| | | By Loss transferred to Partners' Capital A/cs (in new ratio) | |
| | | Kamal = 15,000 | |
| | | Rani = 7,500 | |
| | | Nisha = 7,500 | 30,000 |
| | 4,00,000 | | 4,00,000 |

**Partners' Capital Accounts**

| | Kamal | Rani | Nisha | | Kamal | Rani | Nisha |
|---|---|---|---|---|---|---|---|
| To Memorandum Revaluation | 15,000 | 7,500 | 7,500 | By Balance b/d | 20,00,000 | 10,00,000 | - |
| To Reserve Fund | 9,00,000 | 4,50,000 | 4,50,000 | By Reserve | 12,00,000 | 6,00,000 | - |
| To Kamal (W.N.3) | - | - | 35,000 | By Nisha (W.N.3) | 35,000 | 17,500 | - |
| To Rani (W.N.3) | - | - | 17,500 | By Memorandum Revaluation A/c | 20,000 | 10,000 | |
| To Balance c/d (Refer W.N.2) | 23,40,000 | 11,70,000 | 11,70,000 | By Cash (Bal. Fig.) | | | 16,80,000 |
| | 32,55,000 | 16,27,500 | 16,80,000 | | 32,55,000 | 16,27,500 | 16,80,000 |

Balance Sheet of newly reconstituted firm as on 31.12.2015

| *Liabilities* | ₹ | *Assets* | ₹ |
|---|---|---|---|
| Capital Accounts | | Plant & Machinery | 24,00,000 |
| Kamal | 23,40,000 | Building | 18,00,000 |
| Rani | 11,70,000 | Sundry Debtors | 6,00,000 |
| Nisha | 11,70,000 | Stock | 8,00,000 |
| Reserve Fund | 18,00,000 | Cash (2,00,000 + 16,80,000) | 18,80,000 |
| Sundry Creditors | 8,00,000 | | |
| Bills Payable | 2,00,000 | | |
| | 74,80,000 | | 74,80,000 |

Working Notes:

1. Calculation of new profit and loss sharing ratio

   Nisha will get 1/4th share in the new profit sharing ratio.

   Therefore, remaining share will be 1-1/4 =3/4

   Share of Kamal will be 3/4 x 2/3 = 2/4 i.e. 1/2

   Share of Rani will be 3/4 x 1/3 = 1/4

   New ratio will be

   Kamal : Rani : Nisha

   1/2 : 1/4 : 1/4

   2 : 1: 1

2. Calculation of closing capital of Nisha

   Closing capitals of Kamal & Rani after all adjustments are:

   Kamal = ₹ 23,40,000

   Rani = ₹ 11,70,000

   Since Rani's capital is less than Kamal's capital, therefore Rani's capital is taken as base.

   Hence, Nisha's closing capital should be ₹ 11,70,000 (46,80,000 x ¼) i.e. at par with Rani (as per new profit and loss sharing ratio)

3. Adjustment entry for goodwill*

| *Partners* | *Goodwill as per old ratio* | *Goodwill as per new ratio* | *Effect* | |
|---|---|---|---|---|
| Kamal | 1,40,000 | 1,05,000 | + 35,000 | - |
| Rani | 70,000 | 52,500 | + 17,500 | - |
| Nisha | - | 52,500 | - | 52,500 |
| | 2,10,000 | 2,10,000 | 52,500 | 52,500 |

Adjustment entry will be:

| | | | |
|---|---|---|---|
| Nisha's Capital A/c | Dr. | 52,500 | |
| To Kamal's Capital A/c | | | 35,000 |
| To Rani's Capital A/c | | | 17,500 |

16. Disadvantage of Pre-packaged Accounting Software:

1. Lesser Flexibility: Business today is becoming more and more complex. A standard package may not be able to take care of these complexities i.e. it does not cover peculiarities of specific business. Therefore, customization may not be possible in such softwares.
2. Covers only few functional areas and only main reports are covered: Many pre-packaged accounting softwares do not cover all functional areas. For example, production process may not be covered by most pre-packaged accounting softwares. The demands for modern day business may make the management desire for several other reports for exercising management control. These reports may not be available in a standard package.
3. Lack of security: Any person can view data of all companies with common access password. Levels of access control as we find in many customised accounting software packages are generally missing in a pre-packaged accounting package.
4. Bugs in the software: Certain bugs may remain in the software which takes long time to be rectified by the vendor and is common in the initial years of the software.

17. (a) AS-1 "Disclosures of Accounting Policies", states that the accounting treatment and presentation in Financial Statements of transactions should be governed by their substance and not merely by the legal form. The treatment in the given case would depend on the terms of the Works Contract and also the substance of the agreement.

* As per para 36 of AS 10, 'Accounting for fixed Assets,' goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, the goodwill raised at the time of admission of Nisha is to be written off in new ratio among all partners including new partner, Nisha.

Accordingly, there can be two possibilities in the instant case, viz.

Situation 1

The Company acts as the agent of the customer.

Disclosure should be made to this effect that the material purchased belongs to the customer.

Where ownership of goods vests with the customers and the company merely purchases goods on behalf of its customers, it acts in the capacity of an agent for execution of works under a works contract for which it receives full payment.
Hence, these purchases cannot be treated as the purchases of the Company and so, the debit to its P&L A/c is not correct

Situation 2

The Company is the owner of the materials purchased in substance and has the right, (though a restricted one) to use the materials, for all practical purposes.

If the terms of Works Contract provide for factor linked payment by customer and in substance the materials acquired by the Company belongs to the company only, irrespective of the legal form of ownership, the Company is justified in debiting its P&L A/c.

(b) As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ₹ 5 lakhs. The net realizable value is ₹ 4.95 lakhs (₹ 5.5 lakhs less cost to make the sale @ 10% of ₹ 5.5 lakhs). So, the closing stock should be valued at ₹ 4.95 lakhs.

18. (a)

| | | | |
|---|---|---|---|
| Depreciation amount per annum | $\frac{₹\ (1,90,000 - 10,000)}{12 \text{ years}}$ | = | ₹ 15,000 |
| Present book value of the equipment after two years | ₹ 1,90,000 – (₹ 15,000 x 2 years) | = | ₹ 1,60,000 |
| Revised depreciable value after price adjustment | ₹ 1,60,000 + ₹ 15,000 - ₹ 10,000 | = | ₹ 1,65,000 |
| Revised depreciation amount per annum | $\frac{₹\ 1,65,000}{10 \text{ years}}$ | = | ₹ 16,500 |

Increase in historical cost will be considered as revaluation of the book value of the asset. This revaluation of the book value of the asset is change in accounting estimate and hence depreciation on the same has been calculated prospectively.

(b) As per para 7 of AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one document of contract.

Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS -7.

19. (a) As illustrated in AS 9 'Revenue Recognition', revenue received or billed should be deferred and recognised either on a straight line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription. Accordingly, in the given case the accounting treating adopted by Khetan Ltd. to treat the entire amount as revenue for the current year is not in accordance with AS 9. The revenue should be recognized on a straight line basis over the period of 3 years.

(b) Computation of value of land acquired

| *Particulars* | | *₹ in lakhs* |
|---|---|---|
| Purchase price @ ₹ 70,000 per acre for 7,500 acres | | 5,250.00 |
| Stamp duty & registration charges @ 5% | | 262.5 |
| Legal fees | | 5.00 |
| Title guarantee insurance | | 2.00 |
| Demolition expenses | 50.00 | |
| *Less:* Sale of salvaged materials (net of tax) (43,57,500 x 100/105) | (41.5) | 8.5 |
| Value of land | | 5,528 |

20. (a) 1. As per AS 13 "Accounting for Investments", current investments should be carried at cost or fair value, whichever is lower. Here, the current Investment should be carried at fair value of ₹ 48 Lakhs, being the lower of ₹ 60 Lakhs

(cost) or ₹ 48 Lakhs (fair value). The difference of ₹ 12 Lakhs should be charged to profit and loss account.

2. Current investment should be carried at cost or fair value, whichever is lower. In the given case, the current investments should be carried at cost of ₹ 86 Lakhs, being the lower of ₹ 86 Lakhs (cost) or ₹ 90 Lakhs (fair value).

(b) (i) When amalgamation is  in the nature of merger

Balance in Profit and Loss Account of the transferor company is

(a) Aggregated with the corresponding balance appearing in financial statements of the transfree company; Or

(b) Transferred to the general reserve, if any.

(ii) When amalgamation is in the nature of purchase

Balance in profit and loss account of the transferor company, whether debit or credit, loses its identity.