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PAPER – 5 : ADVANCED ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary, suitable assumption(s) may be made by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *M/s. Shishir Ltd., a public Sector Company, provides consultancy and engineering services to its clients. In the year 2014-15, the Government set up a commission to decide about the pay revision. The pay will be revised with respect from 1-1-2012 based on the recommendations of the commission. The company makes the provision of ₹ 1250 lakhs for pay revision in the financial year 2014-15 on the estimated basis as the report of the commission is yet to come. As per the contracts with 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 discloses through notes to accounts:

"Salaries and benefits include the provision of ₹ 1250 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 book/recognize the income by ₹ 1250 lakhs in Profit & Loss Account as per the terms of the contract. Otherwise, it will be the violation of matching concept & understatement of profit.

Comment on the opinion of the Accountant with reference to relevant Accounting Standards.

(b) *M/s. Mahesh Ltd. is developing a new production process. During the Financial Year ended 31st March, 2013, the total expenditure incurred on the process was ₹ 60 lacs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 32 lacs.*

Further expenditure incurred on the process for the Financial Year ending 31st March, 2014 was ₹ 90 lacs. As on 31-03-2014, the recoverable account of know-how embodied in the process is estimated to be ₹ 82 lacs. This includes estimates of future cash outflows and inflows:

You are required to work out:

(i) *What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March, 2013 ?*

(ii) *What is the carrying amount of the intangible asset as on 31st March, 2013 ?*

(iii) What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March, 2014 ?

(iv) What is the carrying amount of the intangible asset as on 31st March, 2014 ?

(c) M/s. Ayush Ltd. began construction of a new building on 1st January, 2014. It obtained ₹ 3 lakh special loan to finance the construction of the building on 1st January, 2014 at an interest rate of 12% p.a. The company's other outstanding two non-specific loans were:

Amount	Rate of Interest
₹ 6,00,000	11% p.a.
₹ 11,00,000	13% p.a.

The expenditure that were made on the building project were as follows:

	Amount (₹)
January, 2014	3,00,000
April, 2014	3,50,000
July, 2014	5,50,000
December, 2014	1,50,000

Building was completed on 31st December, 2014. Following the principles prescribed in AS 16 'Borrowing Cost', calculate the amount of interest to be capitalized and pass one Journal entry for capitalizing the cost and borrowing in respect of the building.

(d) M/s. A Ltd. had 8,00,000 Equity Shares outstanding on 1st April, 2013. The Company earned a profit of ₹ 20,00,000 during the year 2013-14. The average fair value per share during 2013-14 was ₹ 40. The Company has given Share Option to its employees of 1,00,000 Equity Shares at option price of ₹ 20.

Calculate Basic EPS and Diluted EPS. *(4 x 5 = 20 Marks)*

Answer

(a) As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized 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 recognized for the reimbursement should not exceed the amount of the provision.

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

In this case, the provision of salary to employees of ₹ 1,250 lakhs will be ultimately collected from the client, as per the terms of the contract. Therefore, the liability of ₹ 1,250 lakhs is matched by the counter claim from the client. Hence, the provision for salary of employees should be matched with the reimbursable asset to be claimed from the client. It appears that the whole amount of ₹ 1,250 lakhs is recoverable from client and there is no significant uncertainty about the collection. Hence, the net charge to profit and loss account should be nil.

The opinion of the accountant regarding recognition of income of ₹ 1,250 lakhs is not as per AS 29 and also the concept of prudence will not be followed if ₹ 1,250 lakhs is simultaneously recognized as income. ₹ 1,250 lakhs is not the revenue at present but only reimbursement of claim for which an asset is created. However the accountant is correct to the extent as that non- recognition of ₹ 1,250 lakhs as income will result in the understatement of profit. To avoid this, in the statement of profit and loss, expense relating to provision may be presented net of the amount recognized for reimbursement.

(b) As per AS 26 'Intangible Assets'

(i) **Expenditure to be charged to Profit and Loss account for the year ending 31.03.2013**

₹ 32 lakhs is recognized as an expense because the recognition criteria were not met until 1st December 2012. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.

(ii) **Carrying value of intangible asset as on 31.03.2013**

At the end of financial year, on 31st March 2013, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 28 (60-32) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st December 2012).

(iii) **Expenditure to be charged to Profit and Loss account for the year ended 31.03.2014**

	(₹ in lacs)
Carrying Amount as on 31.03.2013	28
Expenditure during 2013 – 2014	90
Book Value	118
Recoverable Amount	(82)
Impairment loss	36

₹ 36 lakhs to be charged to Profit and loss account for the year ending 31.03.2014.

(iv) **Carrying value of intangible asset as on 31.03.2014**

	(₹ in lacs)
Book Value	118
Less: Impairment loss	(36)
Carrying amount as on 31.03.2014	82

(c) (i) **Computation of average accumulated expenses**

		₹
₹ 3,00,000 x 12 / 12	=	3,00,000
₹ 3,50,000 x 9 / 12	=	2,62,500
₹ 5,50,000 x 6 / 12	=	2,75,000
₹ 1,50,000 x 1 / 12	=	12,500
13,50,000		8,50,000

(ii) **Calculation of average interest rate other than for specific borrowings**

Amount of loan (₹)	*Rate of interest*		*Amount of interest (₹)*
6,00,000	11%	=	66,000
11,00,000	13%	=	1,43,000
17,00,000			2,09,000
Weighted average rate of interest $\left(\frac{2,09,000}{17,00,000} \times 100\right)$		=	12.29*%

(iii) **Interest amount to be capitalized**

		₹
Specific borrowings (₹ 3,00,000 x 12%)	=	36,000
Non-specific borrowings [₹ 5,50,000(₹ 8,50,000 – ₹ 3,00,000) x 12.29%]	=	67,595
Amount of interest to be capitalized	=	1,03,595

* Rounded off

(iv) **Journal Entry**

Date	*Particulars*	*Dr. (₹)*	*Cr. (₹)*
31.12.2014	Building account (13,50,000+1,03,595) Dr.	14,53,595	
	To Bank account		14,53,595
	(Being amount of cost of building and borrowing cost thereon capitalized)		

(d) Computation of Earnings Per Share

	Earnings ₹	*Shares*	*Earnings per share* ₹
Net Profit for the year 2013-14	20,00,000		
Number of shares outstanding during the year 2013-14		8,00,000	
Basic Earnings Per Share $= \frac{20,00,000}{8,00,000}$			2.50
Number of shares under option		1,00,000	
Number of shares that would have been issued at fair value (Refer Note) [1,00,000 x 20/40]		(50,000)	
Diluted Earnings Per Share $= \frac{20,00,000}{8,50,000}$	20,00,000	8,50,000	2.35

Note:

The earnings have not been increased as the total number of shares has been increased only by the number of shares (50,000) deemed for the purpose of the computation to have been issued for no consideration.

Question 2

X, Y and Z were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capital or drawings.

X died on 31.3.2013 and on that date, the partners' balance were as under:

Capital Account: X - ₹ 60,000, Y - ₹ 40,000, Z - ₹ 20,000.

Current Account: X - ₹ 40,000 (Cr.), Y - ₹30,000 (Cr.), Z - ₹ 10,000 (Dr.)

By the partnership agreement, the sum due to X's estate was required to be paid within a period of 3 years, and minimum installment of ₹ 30,000 each were to be paid, the first such installment falling due immediately after death and the subsequent installments at half-yearly intervals. Interest @ 6% p.a. was to be credited half yearly.

In ascertaining his share, goodwill (not recorded in the books) was to be valued at ₹ 90,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at ₹ 60,000 in excess of the book values.

No Goodwill Account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at ₹ 40,000 matured on 1.4.2014, realizing ₹ 52,000; payments of ₹ 30,000 each were made to X's Executors on 1.4.2013, 30.9.2013 and 31.3.2014. Y and Z continued trading on the same terms as previously and the· net profit for the year ending 31.3.2014 (before charging the interest due to X's estate) amounted to -- ₹ 52,000. During that period, the partners' drawings were Y - ₹ 15,000; and Z - ₹ 8,000.*

On 1.4.2014, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 1,80,000 was accepted on that day. A cheque for that sum was received on 30.6.2014.

The balance due to X's estate, including interest, was paid on 30.6.214 and on that day, Y and Z received the sums due to them.

You are required to write-up the Partners' Capital and Current Accounts from 1.4.2013 to 30.6.2014. Show also the account of the executors of X. *(16 Marks)*

Answer

Partners' Current Accounts

Particulars	X	Y	Z	Particulars	X	Y	Z
31.3.2013	₹	₹	₹	31.3.2013	₹	₹	₹
To Balance b/d	---	----	10,000	By Balance b/d	40,000	30,000	--
To X's Current A/c – goodwill	-	30,000	15,000	By Y's Current A/c – goodwill	30,000	--	--
To X's Current A/c – Revaluation Profit	-	20,000	10,000	By Z's Current A/c – goodwill	15,000	-	-
To X's Capital A/c – transfer	1,21,000	-	-	By Y's Current A/c – Revaluation profit	20,000	-	-
				By Z's Current A/c – Revaluation profit	10,000		

* To be read as 1.4.2013

				By Joint assurance policy	6,000	4,000	2,000
				By Balance c/d		16,000	33,000
	1,21,000	50,000	35,000		1,21,000	50,000	35,000
1.4.13				31.3.14			
To Balance b/d		16,000	33,000	By Profit & Loss Appropriation A/c		29,136	14,568
31.3.14							
To Drawings A/c		15,000	8,000	By Balance c/d		1,864	26,432
		31,000	41,000			31,000	41,000
1.4.14				1.4.14			
To Balance b/d		1,864	26,432	By Realisation A/c - profit		31,674	15,837
To Y's Capital A/c – transfer		29,810	---	By Z's Capital A/c - transfer		---	10,595
		31,674	26,432			31,674	26,432

Partners' Capital Accounts

Particulars	*X* ₹	*Y* ₹	*Z* ₹	*Particulars*	*X* ₹	*Y* ₹	*Z* ₹
31.3.13				31.3.13			
To X's Executors A/c	1,81,000	----	---	By Balance b/d	60,000	40,000	20,000
To Balance c/d	---	40,000	20,000	By X's Current A/c	1,21,000	--	--
	1,81,000	40,000	20,000		1,81,000	40,000	20,000
31.3.14				1.4.13			
To Balance c/d		40,000	20,000	By Balance b/d		40,000	20,000
		40,000	20,000			40,000	20,000
1.4.14				1.4.14			
To Z's Current A/c – transfer		---	10,595	By Balance b/d		40,000	20,000
30.6.14				1.4.14			
To Bank A/c		69,810	9,405	By Y's Current A/c – transfer		29,810	---
		69,810	20,000			69,810	20,000

X's Executor's Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
31.3.13	To Bank A/c	30,000	31.3.13	By X's Capital A/c	1,81,000
31.3.13	To Balance c/d	1,51,000			
		1,81,000			1,81,000
30.9.2013	To Bank A/c	30,000	1.4.2013	By Balance b/d	1,51,000
30.9.2013	To Balance c/d	1,25,530	30.9.2013	By Interest A/c	4,530
		1,55,530			1,55,530
31.3.2014	To Bank A/c	30,000	1.10.13	By Balance b/d	1,25,530
	To Balance c/d	99,296	31.3.14	By Interest A/c	3,766
		1,29,296			1,29,296
30.6.2014	To Bank A/c	1,00,785	1.4.2014	By Balance b/d	99,296
			30.6.2014	By Interest A/c	1,489
		1,00,785			1,00,785

Working Notes:

(1) Adjustment in regard to Goodwill

Partners		*X*	*Y*	*Z*
Share of goodwill before death	(₹)	45,000	30,000	15,000
Share of goodwill after death	(₹)	-	60,000	30,000
Gain (+)/Sacrifice (-)	(₹)	(45,000)	30,000	15,000
		Cr.	Dr.	Dr.

(2) Adjustment in regard to revaluation of assets

Partners		*X*	*Y*	*Z*
Share of profit on revaluation credited to all the partners	(₹)	30,000	20,000	10,000
Debited to the continuing partners	(₹)	-	40,000	20,000
	(₹)	(30,000)	20,000	10,000
		Cr.	Dr.	Dr.

(3) Ascertainment of Profit for the year ended 31.3.14

	₹	₹
Profit before charging interest on balance due to X's executors		52,000
Less: Interest payable to X's executors:		

From 1.4.13 to 30.9.13	4, 530	
From 1.10.13 to 31.3.14	3,766	(8,296)
Balance of profit to be shared by Y and Z in 2:1		43,704

(4) Ascertainment of Sundry Assets as on 31.3.14

Liabilities	₹	*Assets*	₹
Capital Account – Y	40,000	Sundry Assets (balancing figure)	1,31,000
Capital Account – Z	20,000		
X's Executors A/c	99,296	Partner's Current A/c –Y	1,864
		Partner's Current A/cs Z	26,432
	1,59,296		1,59,296

(5) Realisation Account

	₹		₹
To Sundry Assets A/c	1,31,000	By Bank A/c (purchase consideration)	1,80,000
To Interest A/c – X's Executors	1,489		
To Partner's Capital A/c – Y	31,674		
To Partner's Capital A/c –Z	15,837		
	1,80,000		1,80,000

(6) Bank Account

	₹		₹
To Purchase consideration	1,80,000	By X's Executors A/c	1,00,785
		By Y	69,810
		By Z	9,405
	1,80,000		1,80,000

Question 3

(a) Comment on adequacy of Debenture Redemption Reserve (DRR) w.r.t. following:

Debentures issued by -

(i) All India Financial Institutions regulated by Reserve Bank of India and Banking companies.

(ii) For other Financial Institutions within the meaning given in the Companies Act.

(iii) For debentures issued by NBFCs registered with the RBI.

(iv) For debentures issued by other companies including manufacturing and infrastructure companies. *(4 Marks)*

(b) M/s. Piyush Ltd. had the following among their ledger opening balances on January 1, 2014:

	₹
11% Debenture A/c (2002 issue)	*80,00,000*
Debenture Redemption Reserve A/c	*70,00,000*
13.5% Debenture in Sneha Ltd. A/c (Face Value ₹ 30,00,000)	*29,00,000*
Own Debentures A/c (Face Value ₹ 30,00,000)	*27,00,000*

As 31st December, 2014 was the date of redemption of the 2002 debentures, the company started buying own debentures and made the following purchases in the open market :

1-2-2014 - 5000 debentures at ₹ 98 cum-interest

1-6-2014 - 5000 debentures at ₹ 99 ex-interest.

Half yearly interest is due on the debentures on 30th June and 31st December in the case of both the companies.

On 31st December, 2014, the debentures in Sneha Ltd. were sold for ₹ 95 each ex-interest. On that date, the outstanding debentures of M/s. Piyush Ltd. were redeemed by payment and by cancellation.

Show the entries in the following ledger accounts of M/s. Piyush Ltd. during 2014 :

(i) Debenture Redemption Reserve Account,

(ii) Own Debenture Account.

The face value of a debenture was ₹ 100. *(12 Marks)*

Answer

(a)

		Adequacy of Debenture Redemption Reserve (DRR)
(i)	For debentures issued by All India Financial Institutions (AIFIs) regulated by Reserve Bank of India.	No DRR is required
(ii)	For other Financial Institutions (FIs) within the meaning given in the Companies Act.	25% of the value of debentures issued through public issue. No DRR is required in the case of privately placed debentures.

(iii)	For debentures issued by NBFCs registered with the RBI.	25% of the value of debentures issued through public issue. No DRR is required in the case of privately placed debentures.
(iv)	For debentures issued by other companies including manufacturing and infrastructure companies.	**For listed companies** 25% of the value of debentures issued through public issue. Also 25% DRR is required in the case of private placement of the value of debentures. **For unlisted companies-** issuing debentures on private placement basis, the DRR will be 25% of the value of debentures.

(b) (i) Debenture Redemption Reserve Account

2014		₹	*2014*		₹
Dec. 31	To 13.5% Deb. in Sneha Ltd.		Jan. 1	By Balance b/d	70,00,000
	(Loss on sale of investment)	50,000	Dec. 31	By 13.5% Deb. in Sneha Ltd.	4,05,000
	To General Reserve(transfer)	77,67,500		By Own Deb. A/c (Interest on own Deb.)	4,12,500
		78,17,500			78,17,500

(ii) Own Debentures Account

		Nominal	*Interest*	*Amount*			*Nominal*	*Interest*	*Amount*
2014		₹	₹	₹	2014		₹	₹	₹
Jan. 1	To Balance b/d	30,00,000	-	27,00,000	June 30	By Debenture Interest A/c		2,20,000	
Feb. 1	To Bank	5,00,000	4,583	4,85,417	Dec. 31	By Debenture Interest A/c		2,20,000	
June 1	To Bank	5,00,000	22,917	4,95,000		By 11% Debentures Account-cancellation	40,00,000		40,00,000
Dec. 31	To Capital Reserve (profit on cancellation)			3,19,583					
	To. Debenture Redemption Reserve		4,12,500						
		40,00,000	4,40,000	40,00,000			40,00,000	4,40,000	40,00,000

Working Note :

1. 13.5% Debentures in Sneha Ltd.

		Interest	Amount			Interest	Amount
2014		₹	₹	*2014*		₹	₹
Jan. 1	To Balance b/d (30,00,000)		29,00,000	June 30	By Bank	2,02,500	
Dec.31	To Debenture Redemption Reserve	4,05,000		Dec. 31	By Bank	2,02,500	
					By Bank		28,50,000
					By Debenture Redemption Reserve (Loss on sale)		50,000
		4,05,000	29,00,000			4,05,000	29,00,000

2. 11% Debentures Account

2014		₹	*2014*		₹
Dec. 31	To Own Debentures A/c	40,00,000	Jan. 1	By Balance b/d	80,00,000
	To Bank	40,00,000			
		80,00,000			80,00,000

3. Cost of debentures purchased on 1.2.2014

	₹
Purchase price of debentures [5,000 x 98(cum-interest)]	4,90,000
Less: Interest	(4,583)
	4,85,417

4. Cost of debentures purchased on 1.6. 2014

Purchase price of debentures [5,000 x 99(ex-interest)]	4,95,000

Question 4

The summarized Balance Sheet of M/s. A Ltd. and M/s. B Ltd. as on 31.03.2014 were is as under:

Liabilities	*A Ltd. ₹*	*B Ltd. ₹*	*Assets*	*A Ltd. ₹*	*B Ltd. ₹*
Share Capital:			*Freehold Property*	*3,00,000*	*2,40,000*

40,000 Equity Share			*Plant & Machinery*	*60,000*	*40,000*
of ₹10 each, Fully paid	*4,00,000*	*-*	*Motor Vehicle*	*30,000*	*20,000*
30,000 Equity Shares			*Trade Receivables*	*2,00,000*	*80,000*
of ₹10 each, Fully paid	*-*	*3,00,000*	*Inventory*	*2,30,000*	*1,80,000*
General Reserve	*2,40,000*	*-*	*Cash at Bank*	*80,000*	*40,000*
Profit & Loss Account	*50,000*	*50,000*			
Trade Payables	*2,10,000*	*1,30,000*			
6% Debentures	*-*	*1,20,000*			
	9,00,000	*6,00,000*		*9,00,000*	*6,00,000*

M/s. A Ltd. and M/s. B Ltd. carry on business of similar nature and they agreed to amalgamate. A new Company, M/s. AB Ltd. is formed to take over the Assets and Liabilities of M/s. A Ltd. and M/s. B Ltd. on the following basis:

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

(a) Goodwill of M/s. A Ltd. and M/s. B Ltd. is to be valued at ₹1,40,000 and ₹40,000 respectively.

(b) Plant & Machinery of M/s. A Ltd. are to be valued at ₹1,00,000.

(c) The Debentures of M/s. B Ltd. are to be discharged, by the issue of 6% Debentures of M/s. AB Ltd., at a premium of 5%.

You are required to:

(i) Compute the basis on which shares in M/s. AB Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of M/s. AB Ltd. is ₹10.

(ii) Draw up a Balance Sheet of M/s. AB Ltd. as on 1st April, 2014, when Amalgamation is completed.

(iii) Pass Journal entries in the Books of M/s. AB Ltd. for acquisition of M/s. A Ltd. and M/s. B Ltd. *(16 Marks)*

Answer

Calculation of Purchase consideration (or basis for issue of shares of AB Ltd.)

	A Ltd.	*BLtd.*
Purchase Consideration:	*₹*	*₹*
Goodwill	1,40,000	40,000
Freehold property	3,00,000	2,40,000
Plant and Machinery	1,00,000	40,000
Motor vehicles	30,000	20,000

Inventory	2,30,000	1,80,000
Trade receivables	2,00,000	80,000
Cash at Bank	80,000	40,000
	10,80,000	6,40,000
Less: Liabilities:		
6% Debentures (1,20,000 x 105%)	-	(1,26,000)
Trade payables	(2,10,000)	(1,30,000)
Net Assets taken over	8,70,000	3,84,000
To be satisfied by issue of shares of AB Ltd. @ ₹ 10 each	87,000	38,400

Balance Sheet AB Ltd. as at 1st April,2014

			Particulars	*Note No*	*Amount*
					₹
			EQUITY AND LIABILITIES		
1			**Shareholders' funds**		
	(a)		Share capital	1	12,54,000
2			**Non-current liabilities**		
	(a)		Long-term borrowings	2	1,26,000
3			**Current liabilities**		
	(a)		Trade payables (21,00,000+1,30,000)		3,40,000
			Total		17,20,000
			ASSETS		
1			**Non-current assets**		
	(a)		Fixed assets		
		i	Tangible assets	3	7,30,000
		ii	Intangible assets	4	1,80,000
2			**Current assets**		
	(a)		Inventories (2,30,000+1,80,000)		4,10,000
	(b)		Trade receivables (2,00,000+80,000)		2,80,000
	(c)		Cash and cash equivalents (80,000+40,000)		1,20,000
			Total		17,20,000

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	1,25,400 shares of ₹ 10 each		12,54,000
	(All the above shares are issued for consideration other than cash)		
2.	**Long-term borrowings**		
	Secured		
	6% Debentures		1,26,000
3.	**Tangible assets**		
	Freehold property		
	A Ltd.	3,00,000	
	B Ltd.	2,40,000	5,40,000
	Plant and Machinery		
	A Ltd.	1,00,000	
	B Ltd.	40,000	1,40,000
	Motor vehicles A Ltd.		
	A Ltd.	30,000	
	B Ltd.	20,000	50,000
			7,30,000
4.	**Intangible assets**		
	Goodwill		
	A Ltd.	1,40,000	
	B Ltd.	40,000	1,80,000

Journal Entries

In the books of AB Ltd.

Particulars		*Amount* (₹)	*Amount* (₹)
Business purchase account	Dr.	12,54,000	
To Liquidator of A Ltd. account			8,70,000

To Liquidator of B Ltd. account			3,84,000
(Being the amount of purchase consideration payable to liquidator of A Ltd. and B Ltd. for assets taken over)			
Goodwill	Dr.	1,40,000	
Freehold property	Dr.	3,00,000	
Plant and Machinery	Dr.	1,00,000	
Motor vehicles	Dr.	30,000	
Trade receivables	Dr.	2,00,000	
Inventory	Dr.	2,30,000	
Cash at Bank	Dr.	80,000	
To Trade payables			2,10,000
To Business purchase account			8,70,000
(Being assets and liabilities of A Ltd. taken over)			
Goodwill	Dr.	40,000	
Freehold property	Dr.	2,40,000	
Plant and Machinery	Dr.	40,000	
Motor vehicles	Dr.	20,000	
Trade receivables	Dr.	80,000	
Inventory	Dr.	1,80,000	
Cash at Bank	Dr.	40,000	
To Trade payables			1,30,000
To 6% Debentures of B Ltd.			1,26,000
To Business purchase account			3,84,000
(Being assets and liabilities of B Ltd. taken over)			
6% Debentures of B Ltd.	Dr.	1,26,000	
To 6% debentures			1,26,000
(Being issue of 6% debentures to debenture holders of B Ltd.			
Liquidator of the A Ltd. account	Dr.	8,70,000	
Liquidator of the B Ltd. account	Dr.	3,84,000	
To Equity share capital account			
(Being the allotment of equity shares of ₹ 10 each, as per the agreement for discharge of purchase consideration)			12,54,000

Note:

(1) It is assumed that the nominal value of debentures of B Ltd. is ₹ 100 each.

(2) It has been presumed that 6% Debentures of M/s B Ltd. are discharged at premium of 5% by issue of 6% Debentures of M/s AB Ltd. At par.

Question 5

(a) Following facts have been taken out from the records of M/s. Sneha Bank Ltd. in respect of the year ending March 31, 2015:

(i) On 1-4-2014 Bills for collection were ₹ 10,15,000. During 2014-15 bills received for collection amounted to ₹ 89,75,000, bills collected were ₹ 64,50,000 and bills dishonoured and returned were ₹ 11,25,000.

Prepare Bills for collection (Assets) Account and bills for Collection (Liability) Account.

(ii) On 1-4-2014, Acceptance, Endorsement, etc. not yet satisfied amounted to ₹ 27,50,000. During the year under question, Acceptances, Endorsements, Guarantees etc., amounted to ₹ 67,50,000. Bank honoured acceptances to the extent of ₹ 44,50,000 and client paid of ₹ 15,00,000 against the guaranteed liability. Clients failed to pay ₹ 4,00,000 which the Bank had to pay.

Prepare the "Acceptances, Endorsements and other obligations Account" as it would appear in the General Ledger.

(iii) It is found from the books, that a loan of ₹ 50,00,000 was advanced on 30.09.2014 @ 14% p.a. Interest payable half yearly; but the loan was outstanding as on 31.3.2015 without any payment recorded in the meantime, either towards principal or towards interest. The security for the loan was ₹ 1,00,000 fully paid shares of ₹ 100 each (the market value was ₹ 98 per share as per the Stock Exchange information as on 30th September, 2014). But due to fluctuations, the price fell to· ₹ 45 per share in January, 2015. On 31-3-2015, the price as per Stock Exchange rate was ₹ 85 per share.

State how would you classify the loan as secured/unsecured in the Balance Sheet of the Company.

(iv) The following balances are extracted from the Trial Balance as on 31.3.2015:

	Dr. (₹)	*Cr. (₹)*
Interest and Discount		*98,00,000*
Rebate for bills discounted		*45,000*
Bills discounted and purchased	*5,00,000*	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 2014-15 amount to ₹ 24,000. Prepare ledger accounts. *(12 Marks)* *(b) From the following information of M/s. XY Bank Ltd. for the year ended 31st March, 2014, compute the provisions to be made in the Bank's Books for Doubtful Assets:*

	₹ in Lakhs
Doubtful Assets (More than 3 Years)	*2,000*
DICGS 100% Cover	*200*
Value of Security including DICGC Cover	*1,000*

(4 Marks)

Answer

(a) (i) Bills for Collection (Assets) A/c

		₹			₹
1.4.14	To Balance b/d	10,15,000	2014-15	By Bills for Collection (Liabilities) A/c	64,50,000
2014-15	To Bills for Collection (liabilities) A/c	89,75,000	2014-15	By Bills for collection (Liabilities) A/c	11,25,000
			31.3.15	By Balance c/d	24,15,000
		99,90,000			99,90,000

Bills for Collection (Liabilities) Account

		₹			₹
2014-15	To Bills for collection	64,50,000	1.4.14	By Balance b/d	10,15,000
2014-15	To Bills for Collection (Assets) A/c	11,25,000	2014-15	By Bills for collection (Assets) A/c	89,75,000
31.3.2015	To Balance c/d	24,15,000			
		99,90,000			99,90,000

(ii) In the general ledger

Acceptances, Endorsement & other Obligation Account

		₹			₹
2014-15	To Constituents' Liability for Acceptance, Endorsement, etc.	44,50,000	1.4.14	By Balance b/d	27,50,000
	To Constituents' Liability for Acceptances, Endorsement etc.	15,00,000	2014-15	By Constituents, Liabilities for Acceptances, Endorsements, etc.	67,50,000

	To Constituents' Liability for Acceptances, Endorsements, etc. (amount paid on failure of clients)	4,00,000			
31.3.15	To Balance c/d	31,50,000			
		95,00,000			95,00,000

(iii) For classifying loans as fully secured or otherwise, the value of the security as on the last date of the year is considered. The value of the security is ₹ 85,00,000 covering the loan and the interest due comfortably. Hence, it is to be treated as good and fully secured.

(iv) Rebate on Bills Discounted Account

		₹			₹
2014-15	To Interest and Discount A/c	21,000	1.4.14	By Balance b/d	45,000
31.3.15	To Balance c/d	24,000			
		45,000			45,000

Interest & Discount Account

		₹			₹
31.3.15	To Profit & Loss A/c	98,21,000	1.4.14	By Balance b/d	98,00,000
			2014-15	By Rebate on Bills discounted A/c	21,000
		98,21,000			98,21,000

(b) Computation of provision in the books of XY Bank Ltd.

	(₹ in lakhs)
Doubtful Assets (more than 3 years)	2,000
Less: Value of security (excluding DICGC cover)	(800)
	1,200
Less: DICGC cover	(200)
Unsecured portion	1,000
Provision:	
for unsecured portion @100%	1,000 lakhs
for secured portion @ 100%	800 lakhs
Total provision to be made in the books of XY Bank	1,800 lakhs

Question 6

(a) *M/s. Sandeep having Head Office at Delhi has a Branch at Kolkata. The Head Office does wholesale trade only at cost plus 80%. The Goods are sent to Branch at the wholesale price viz. cost plus 80%. The Branch at Kolkata wholly engaged in retail trade and the goods are sold at cost to Head Office plus 100%.*

Following details are furnished for the year ended 31st March, 2014:

	Head Office (₹)	Kolkata Branch (₹)
Opening Stock (As on 01.04.2013)	1,25,000	-
Purchases	21,50,000	-
Goods sent to Branch (cost to H.O. plus 80%)	7,38,000	-
Sales	23,79,600	7,30,000
Office Expenses	50,000	4,500
Selling Expenses	32,000	3,300
Staff Salary	45,000	8,000

You are required to prepare Trading and Profit & Loss Account of the Head Office and Branch for the Year ended 31st March, 2014. *(8 Marks)*

(b) *M/s. Suman Enterprises has two Departments, Finished Leather and Shoes. Shoes are made by the Firm itself out of leather supplied by Leather Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2014:*

	Finished Leather Department (₹)	Shoes Department (₹)
Opening Stock (As on 01.04.2013)	30,20,000	4,30,000
Purchases	1,50,00,000	2,60,000
Sales	1,80,00,000	45,20,000
Transfer to Shoes Department	30,00,000	-
Manufacturing Expenses	-	5,00,000
Selling Expenses	1,50,000	60,000
Rent and Warehousing	5,00,000	3,00,000
Stock on 31.03.2014	12,20,000	5,00,000

The following further information are available for necessary consideration:

(i) The stock in Shoes Department may be considered as consisting of 75% of Leather and 25% of other expenses.

(ii) The Finished Leather Department earned a Gross Profit @ 15% in 2012-13.

(iii) General expenses of the business as a whole amount to ₹ 8,50,000. (8 Marks)

Answer

(a) Trading and Profit and Loss A/c

For the year ended 31st March 2014

	Head office ₹	*Branch* ₹		*Head office* ₹	*Branch* ₹
To Opening stock	1,25,000	-	By Sales	23,79,600	7,30,000
To Purchases	21,50,000	-	By Goods sent to branch	7,38,000	-
To Goods received from head office	-	7,38,000	By Closing stock (W.N.1 & 2)	5,43,000	81,000
To Gross profit c/d	13,85,600	73,000			
	36,60,600	8,11,000		36,60,600	8,11,000
To Office expenses	50,000	4,500	By Gross profit b/d	13,85,600	73,000
To Selling expenses	32,000	3,300			
To Staff salaries	45,000	8,000			
To Branch Stock Reserve (W.N.3)	36,000	-			
To Net Profit	12,22,600	57,200			
	13,85,600	73,000		13,85,600	73,000

Working Notes:

(1)

Calculation of closing stock of head office:	₹
Opening Stock of head office	1,25,000
Goods purchased by head office	21,50,000
	22,75,000

	Less: Cost of goods sold [31,17,600 (23,79,600+ 7,38,000) x 100/180]	(17,32,000)
		5,43,000
(2)	**Calculation of closing stock of branch:**	₹
	Goods received from head office [At invoice value]	7,38,000
	Less: Invoice value of goods sold [7,30,000 x 180/200]	(6,57,000)
		81,000
(3)	**Calculation of unrealized profit in branch stock:**	
	Branch stock ₹ 81,000	
	Profit included 80% of cost	
	Hence, unrealized profit would be = ₹ 81,000 x 80/180 =	₹ 36,000

(b) Departmental Trading and Profit and Loss Account

for the year ended 31st March, 2014

Particulars	*Finished leather (₹)*	*Shoes (₹)*	*Total (₹)*	*Particulars*	*Finished leather (₹)*	*Shoes (₹)*	*Total (₹)*
To Opening stock	30,20,000	4,30,000	34,50,000	By Sales	1,80,00,000	45,20,000	2,25,20,000
To Purchases	1,50,00,000	2,60,000	1,52,60,000	By Transfer to shoes Deptt.	30,00,000	-	30,00,000
To Transfer from Leather Department		30,00,000	30,00,000	By Closing stock	12,20,000	5,00,000	17,20,000
To Manufacturing expenses		5,00,000	5,00,000				
To Gross profit c/d	42,00,000	8,30,000	50,30,000				
	2,22,20,000	50,20,000	2,72,40,000		2,22,20,000	50,20,000	2,72,40,000
To Selling expenses	1,50,000	60,000	2,10,000	By Gross profit b/d	42,00,000	8,30,000	50,30,000
To Rent & warehousing	5,00,000	3,00,000	8,00,000				
To Net profit	35,50,000	4,70,000	40,20,000				
	42,00,000	8,30,000	50,30,000		42,00,000	8,30,000	50,30,000

General Profit and Loss Account

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To General expenses	8,50,000	By Net profit	40,20,000
To Unrealized profit (Refer W.N.)	26,625		
To General net profit (Bal.fig.)	31,43,375		
	40,20,000		40,20,000

Working Note:

Calculation of Stock Reserve

Rate of Gross Profit of Finished leather Department, for the year 2013-14

$= \frac{\text{Gross Profit}}{\text{Total Sales}} \times 100$ = [(42,00,000)/ (1,80,00,000 + 30,00,000)] x100 = 20%

Closing Stock of Finished leather in Shoes Department = 75%

i.e. ₹ 5,00,000 x 75% = ₹ 3,75,000

Stock Reserve required for unrealized profit @ 20% on closing stock

₹ 3,75,000 x 20% = ₹ 75,000

Stock reserve for unrealized profit included in opening stock of Shoes dept. @ 15% i.e.

(₹ 4,30,000 x 75% x 15%) = ₹ 48,375

Additional Stock Reserve required during the year = ₹ 75,000 – ₹ 48,375 = ₹ 26,625

Question 7

*Answer any **four** of the following:*

(a) *What are the differences between Life insurance and other forms of insurance?*

(b) *M/s. A Ltd. has set up its business in a designated backward area with an investment of ₹ 200 Lakhs. The Company is eligible for 25% subsidy and has received ₹ 50 Lakhs from the Government.*

Explain the treatment of the Capital Subsidy received from the Government in the Books of the Company.

(c) *A liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 45,00,000 against which payment was made as follows :*

Liquidation expenses	*₹ 50,000*
Secured Creditors	*₹ 15,00,000*
Preferential Creditors	*₹ 1,25,000*

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total remuneration payable to liquidator. Calculation shall be made to the nearest multiple of a rupee.

(d) *State any four situations when a lease would be classified as Finance Lease.*

(e) *Under what circumstances, an LLP can be wound up by the Tribunal.* *(4 x 4 = 16 Marks)*

Answer

(a) Difference between Life Insurance and other forms of Insurance

		Life Insurance	*Other forms of Insurance*
1.	**Timing of Payment of Claim**	Insurable amount is payable either on the happening of the event (death) or at the maturity	Reimbursement of loss or liability incurred will be paid at the happening of the uncertain event only.
2.	**Value of Policy**	Insurance can be done for any value depending upon the premiums the insured is willing to pay.	The sum payable under it is limited to the amount of loss actually suffered or the liability incurred, notwithstanding the amount of policy.
3.	**Duration of Contract**	These are long term contracts running over the number of years.	These are only for one year though renewable after year.
4.	**Assurance**	Life insurance is also known by another term 'assurance' since the insured gets an assured sum.	Policies covering other than life are known as insurance policies.
5.	**Determination of Liability**	Actuaries periodically estimate the liability under existing policies. On that basis a valuation balance sheet is prepared to determine the profit	A portion of the premium is carried forward as a provision for unexpired liability and the balance net of claims and expenses is taken as profit or loss.

(b) As per para 10 of AS 12 "Accounting for Govt. Grants", Where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve.

Subsidy received by A Ltd. is in the nature of promoter's contribution, since this grant is given with reference to the total investment in an undertaking and by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof. Therefore, this grant should be treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

(c) Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
2% on Assets realised	45,00,000 x 2%	90,000

3% on payment made to Preferential creditors	1,25,000 x 3%	3,750
3% on payment made to Unsecured creditors (Refer W.N)		45,000
Total Remuneration payable to Liquidator		1,38,750

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= ₹ 45,00,000 – ₹ 50,000 – ₹ 15,00,000 – ₹ 1,25,000 – ₹ 90,000 – ₹ 3,750

= ₹ 27,31,250

Sufficient amount is available for unsecured creditors therefore Liquidator's remuneration on payment to unsecured creditors = 3% x ₹ 15,00,000 = ₹ 45,000

(d) Finance Lease is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership. As per AS 19, in following situations, the lease transactions would be classified as Finance lease:

(i) The lessee will get the ownership of leased asset at the end of the lease term.

(ii) The lessee has an option to buy the leased asset at the end of the lease term at price, which is lower than its expected fair value at the date on which option will be exercised.

(iii) The lease term covers the major part of the life of asset even if title is not transferred.

(iv) At the beginning of lease term, present value of minimum lease rental covers the initial fair value.

(e) Under following circumstances, an LLP can be wound up by the Tribunal:

(i) If the LLP decides that it should be wound up by the Tribunal;

(ii) If for a period of more than six months, the number of partners of the LLP is reduced below two;

(iii) If the LLP is unable to pay its debts;

(iv) If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;

(v) If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;

(vi) If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.