

**INTERMEDIATE (IPC)
GROUP II - PAPER 5
ADVANCED ACCOUNTING**

NOV 2014

Roll No.

Total No. of Questions - 7

Total No. of Printed Pages - 12

Time Allowed - 3 Hours

Maximum Marks - 100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Working notes should form part of the respective answer.

Wherever necessary, suitable assumptions may be made by the candidates and disclosed as a note forming part of the answer.

Question No. 1 is compulsory.

Candidates are required to answer any **five** questions from the remaining **six** questions.

| | Marks |
|--|--|
| 1. Answer the following questions : | 4×5 =20 |
| (a) A machine having expected useful life of 6 years, is leased for 4 years. | 5 |
| Both the cost and the fair value of the machinery are ₹ 7,00,000. The amount will be paid in 4 equal instalments and at the termination of lease, lessor will get back the machinery. The unguaranteed residual value at the end of the 4 th year is ₹ 70,000. The IRR of the investment is 10%. The present value of annuity factor of ₹ 1 due at the end of 4 th year at 10% IRR is 3.169. The present value of ₹ 1 due at the end of 4 th year at 10% rate of interest is 0.683. | |

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(2)

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State with reasons whether the lease constitutes finance lease and also compute the unearned finance income.

(b) A company is showing an intangible asset at ₹ 88 lakhs as on 5
01.04.2013. This asset was acquired for ₹ 120 lakhs on 01.04.2009 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard.

(c) Stem Ltd. purchased a Plant for US\$ 30,000 on 30th November, 2013 5
payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 62.15 per dollar. On 30th November, 2013, the exchange rate was ₹ 60.75 per dollar.

How will you recognise the profit or loss on forward contract in the books of Stem Ltd. for the year ended 31st March, 2014 ?

(d) WZW Ltd. is in dispute involving allegation of infringement of patents 5
by a competitor company who is seeking damages of a huge sum of ₹ 1000 Lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal the same in the Annual Accounts of the company ?

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(3)

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2. P and Q were carrying on business sharing profits and losses equally. The 16 firms' Balance Sheet as at 31.12.2013 was :

| Liabilities | ₹ | Assets | ₹ |
|-------------------------|-----------------|--------------------------|-----------------|
| Capital Accounts: | | | |
| P 1,50,000 | | Plant 1,60,000 | |
| Q <u>1,30,000</u> | 2,80,000 | Building 48,000 | |
| Sundry Creditors 80,000 | | Debtors 75,000 | |
| Bank Overdraft 45,000 | | Stock 70,000 | |
| | | Joint Life policy 6,000 | |
| | | Profit & Loss A/c 30,000 | |
| | | Drawings Account : | |
| | | P 9,000 | |
| | | Q <u>7,000</u> | 16,000 |
| Total | 4,05,000 | Total | 4,05,000 |

The operations of the business were carried on till 30.06.2014. P & Q both withdrew in equal amount half the amount of profit made during the current period of six months after charging depreciation at 10% per annum on plant and after writing off 5% on building.

During the current period of six months, creditors were reduced by ₹20,000 and bank overdraft by ₹ 5,000.

The joint life policy was surrendered for ₹ 6,000 before 30th June 2014. Stock was valued at ₹ 84,000 and debtors at ₹ 68,000 on 30th June 2014. The other items remained the same as at 31.12.2013.

On 30.06.2014, the firm sold its business to PQ Ltd. The value of goodwill was estimated at ₹ 1,30,000 and the remaining assets were valued on the basis of the balance sheet as on 30.06.2014.

PQ Ltd. paid the purchase consideration in equity shares of ₹ 10 each.

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P.T.O.

You are required to prepare :

- (a) Balance sheet of the firm as at 30.06.2014,
- (b) Realisation account,
- (c) Partners' Capital Accounts showing the final settlement between them.

3. (a) X Ltd. granted 500 stock options to its employees on 1.4.2011 at ₹ 50 per share. The vesting period is 2½ years and the maximum exercise period is one year. Market price on that date is ₹ 140 per share. All the options were exercised on 30.06.2014. Pass journal entries giving suitable narrations, if the face value of equity share is ₹ 10 per share. 8

(b) Venus Limited recently made a public issue in respect of which the following information is available : 8

- (i) No. of partly convertible debentures issued 4,00,000 ; face value and issue price of ₹ 100 per debenture.
- (ii) Convertible portion per debenture – 80%, date of conversion – on expiry of 7 months from the date of closing of issue.
- (iii) Date of closure of subscription list – 01.06.2013, date of allotment – 01.07.2013, Rate of interest on debentures – 10% p.a. payable from the date of allotment. Value of equity share for the purpose of conversion – ₹ 40 (Face value ₹ 10)
- (iv) Underwriting commission – 3%
- (v) No. of debentures applied for 3,00,000
- (vi) Interest payable on debentures – half yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended on 31st March, 2014 (including cash and bank entries).

(5)

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4. The Balance Sheet of X Ltd. as at 31st March, 2014 was as follows :

16

X Limited

Balance Sheet as at 31.03.2014

| | Particulars | Amount (₹) |
|-----------|---|------------------|
| I | Equity and Liabilities | |
| 1 | Shareholder's Fund | |
| | Share Capital | |
| | (a) 40000 equity shares of ₹ 100 each fully paid | 40,00,000 |
| | (b) 20000, 10% preference shares of ₹ 100 each fully paid | 20,00,000 |
| | Reserve & Surplus | |
| | (a) Securities Premium Account | 1,50,000 |
| | (b) Profit & Loss Account | (23,00,000) |
| 2 | Non Current Liabilities | |
| | Long Term Borrowings | |
| | 7% Debentures of ₹ 100 each | 4,00,000 |
| 3 | Current Liabilities | |
| | Other Current Liabilities | |
| | (a) Creditors | 10,00,000 |
| | (b) Loan from Director | 2,00,000 |
| | Total Liabilities | 54,50,000 |
| II | Assets | |
| 1 | Non Current Assets | |
| | Fixed Assets | |
| | (a) Land & Building | 20,00,000 |
| | (b) Plant & Machinery | 12,00,000 |
| | Intangible Assets | |
| | Goodwill | 4,00,000 |
| 2 | Current Assets | |
| | (a) Debtors | 12,00,000 |
| | (b) Stock | 5,00,000 |
| | (c) Cash at Bank | 1,50,000 |
| | Total Assets | 54,50,000 |

No Dividend on Preference Shares has been paid for last 5 years.

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The following scheme of reorganisation was duly approved by the Court :

- (i) Each equity share to be reduced to ₹ 25.
- (ii) Each existing Preference Share to be reduced to ₹ 75 and then exchanged for one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each.
- (iii) Preference Shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of ₹ 25.
- (iv) The Debenture Holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference Shares of ₹ 50 each issued at par. One-fourth (in value) of the Debenture Holders accepted Preference Shares for their claims. The rest were paid in cash.
- (v) Contingent Liability of ₹ 2,00,000 is payable which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the Company.
- (vi) Goodwill does not have any value in the present. Decrease the value of Plant & Machinery, Stock and Debtors by ₹ 3,00,000 ; ₹ 1,00,000 and ₹ 2,00,000 respectively. Increase the value of Land & Building to ₹ 25,00,000.
- (vii) 50,000 new Equity Shares of ₹ 25 each are to be issued at par payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.
- (viii) Total expenses incurred by the Company in connection with the Scheme excluding Underwriting Commission amounted to ₹ 20,000.

Pass necessary Journal Entries to record the above transactions.

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5. (a) Metro General Insurance Company submits the following information 8 for the year ended 31st March, 2014 :

| Particulars | Direct Business (₹) | Reinsurance (₹) |
|------------------------------|------------------------|--------------------|
| Premium received | 75,25,000 | 8,25,000 |
| Premium paid | — | 4,90,000 |
| Claims paid during the year | 49,70,000 | 5,10,000 |
| Claims payable : | | |
| 1 st April, 2013 | 6,85,000 | 95,000 |
| 31 st March, 2014 | 7,38,000 | 70,000 |
| Claims received | — | 3,95,000 |
| Claims receivable : | | |
| 1 st April, 2013 | — | 75,000 |
| 31 st March, 2014 | — | 1,25,000 |
| Expenses of Management | 2,90,000 | — |
| Commission : | | |
| On Insurance accepted | 1,60,000 | 15,000 |
| On Insurance ceded | — | 18,000 |

The following additional information are also available :

- (1) Expenses of Management include ₹ 45,000 Surveyor's fees and ₹ 55,000 Legal expenses for settlement of claims.
- (2) Reserve for unexpired risk is to be maintained @ 40%. The balance of Reserve for unexpired risk as on 01.04.2013 was ₹ 28,40,000.

You are required to make the Revenue Account for the year ended 31st March, 2014.

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(8)

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(b) A commercial bank has the following capital funds and assets. 8
 Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted asset ratio. State your observation on the risk weighted asset ratio.

| Particulars | Amount (₹ in crores) |
|--|---------------------------------|
| Equity Share Capital | 400.00 |
| Statutory Reserve | 250.00 |
| Capital Reserve (of which ₹ 18 crores were due to revaluation of assets and the balance due to sale of capital assets) | 86.00 |
| <u>Assets :</u> | |
| Cash Balance with RBI | 12.00 |
| Balance with other Banks | 20.00 |
| Other Investments | 40.00 |
| <u>Loans & Advances</u> | |
| (i) Guaranteed by Government | 14.50 |
| (ii) Others | 5,465.00 |
| Premises Furniture & Fixtures | 74.00 |
| <u>Off Balance Sheet Items</u> | |
| (i) Guarantees and other obligations | 700.00 |
| (ii) Acceptances, endorsements and letter of credit | 4,900.00 |

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6. (a) LMN is having branch at Mumbai. Goods are invoiced to the branch at 25% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses, which are met by the Branch. From the following particulars, prepare branch account in the books of head office :

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---------------|---|---------------|
| Stock as on 1 st April, 2013 (Invoice Price) | 40,000 | Discount allowed to debtors | 300 |
| Sundry Debtors as on 1 st April, 2013 | 25,000 | Expenses paid by head office: | |
| Cash in hand as on 1 st April, 2013 | 1,000 | Salary | 4,000 |
| Office furniture as on 1 st April, 2013 | 4,000 | Staff Welfare | 750 |
| Goods invoiced from the head office (invoice price) | 1,80,000 | Telephone Expenses | 1,200 |
| Goods return to head office | 6,000 | Other Misc. Expenses paid by branch | 700 |
| Goods return by debtors | 1,250 | Stock as on 31 st March, 2014 (at invoice price) | 35,000 |
| Cash received from Debtors | 65,000 | Depreciation to be provided on branch furniture | 10% p.a. |
| Cash sales | 1,20,000 | | |
| Credit sales | 70,000 | | |

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(b) Mega Ltd. has two departments, A and B. From the following 8 particulars, prepare departmental Trading A/c and General Profit & Loss Account for the year ended 31st March, 2014.

| Particulars | Amount (₹) | |
|--|--------------|--------------|
| | Department A | Department B |
| Opening stock as on 01.04.2013 (at cost) | 70,000 | 54,000 |
| Purchases | 3,92,000 | 2,98,000 |
| Carriage Inward | 6,000 | 9,000 |
| Wages | 54,000 | 36,000 |
| Sales | 5,72,000 | 4,60,000 |
| <u>Purchased Goods Transferred :</u> | | |
| By Department B to A | 50,000 | |
| By Department A to B | | 36,000 |
| <u>Finished Goods Transferred :</u> | | |
| By Department B to A | 1,50,000 | |
| By Department A to B | | 1,75,000 |
| <u>Return of Finished Goods :</u> | | |
| By Department B to A | 45,000 | |
| By Department A to B | | 32,000 |
| <u>Closing Stock :</u> | | |
| Purchased Goods | 24,000 | 30,000 |
| Finished Goods | 1,02,000 | 62,000 |

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 30% of the closing finished stock with each department represents finished goods received from the other department.

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| | |
|---|-----|
| 7. Answer any four of the following : | 4×4 |
| | =16 |
| (a) Give two examples of each of the following items : | 4 |
| (i) Change in Accounting Policy | |
| (ii) Change in Accounting Estimate | |
| (iii) Extra Ordinary Items | |
| (iv) Prior Period Item | |
| (b) What are the indicators of Non-Integral Foreign Operation (NFO) ? | 4 |
| (c) In the following list of shares issued, for the purpose of calculation of weighted average number of shares, from which date weight is to be considered : | 4 |
| (i) Equity Shares issued in exchange of cash, | |
| (ii) Equity Shares issued as a result of conversion of a debt instrument, | |
| (iii) Equity Shares issued in exchange for the settlement of a liability of the enterprise, | |
| (iv) Equity Shares issued for rendering of services to the enterprise, | |
| (v) Equity Shares issued in lieu of interest and/or principal of an other financial instrument, | |
| (vi) Equity Shares issued as consideration for the acquisition of an asset other than in cash. | |

Also define Potential Equity Share.

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(d) Find out the income to be recognised by ABC Bank Ltd. for the year 4 ended 31st March, 2014 in respect of interest on advances [₹ in Lakhs] as detailed below :

| | Performing Asset | | N.P.A. | |
|--------------------------------|--------------------|----------------------|--------------------|----------------------|
| | Interest earned | Interest received | Interest earned | Interest received |
| Term Loan | 280 | 180 | 170 | 20 |
| Cash credits and overdrafts | 1700 | 1630 | 310 | 48 |
| Bills purchased and discounted | 400 | 400 | 180 | 70 |

(e) State any four alternative accounting treatment of the fund received by an Electricity Company from consumer towards capital expenditure/ service line contributions. 4

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DISCLAIMER

The Suggested Answers hosted in the website do not constitute the basis for evaluation of the students' answers in the examination. The answers are prepared by the Faculty of the Board of Studies with a view to assist the students in their education. While due care is taken in preparation of the answers, if any errors or omissions are noticed, the same may be brought to the attention of the Director of Studies. The Council of the Institute is not in anyway responsible for the correctness or otherwise of the answers published herein.

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

Answer the following questions:

(a) A machine having expected useful life of 6 years, is leased for 4 years. Both the cost and the fair value of the machinery are ₹ 7,00,000. The amount will be paid in 4 equal instalments and at the termination of lease, lessor will get back the machinery. The unguaranteed residual value at the end of the 4th year is ₹ 70,000. The IRR of the investment is 10%. The present value of annuity factor of ₹ 1 due at the end of 4th year at 10% IRR is 3.169. The present value of ₹ 1 due at the end of 4th year at 10% rate of interest is 0.683.

State with reasons whether the lease constitutes finance lease and also compute the unearned finance income.

(b) A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2013. This asset was acquired for ₹ 120 lakhs on 01.04.2009 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard.

(c) Stem Ltd. purchased a Plant for US\$ 30,000 on 30th November, 2013 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 62.15 per dollar. On 30th November, 2013; the exchange rate was ₹ 60.75 per dollar.

How will you recognise the profit or loss on forward contract in the books of Stem Ltd. for the year ended 31st March, 2014 ?

(d) WZW Ltd. is in dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 1000 Lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal the same in the Annual Accounts of the company? (4 x 5 = 20 Marks)

Answer

(a) (i) Determination of nature of lease

Fair value of asset ₹ 7,00,000

Unguaranteed residual value ₹ 70,000

Present value of residual value at the end of 4th Year = ₹ 70,000 x 0.683 = ₹ 47,810

$$\begin{aligned}
 \text{Present value of lease payment recoverable} &= ₹ 7,00,000 - ₹ 47,810 \\
 &= ₹ 6,52,190
 \end{aligned}$$

The percentage of present value of lease payment to fair value of the asset is

$$\begin{aligned}
 &= (₹ 6,52,190 / ₹ 7,00,000) \times 100 \\
 &= 93.17\%
 \end{aligned}$$

Since it substantially covers the major portion of lease payment and life of the asset, the lease constitutes a finance lease.

(ii) Calculation of Unearned finance income

$$\begin{aligned}
 \text{Annual lease payment} &= ₹ 6,52,190 / 3.169 \\
 &= ₹ 2,05,803 \text{ (approx.)}
 \end{aligned}$$

Gross investment in the lease = Total minimum lease payment + unguaranteed residual value.

$$\begin{aligned}
 &= (₹ 2,05,803 \times 4) + ₹ 70,000 \\
 &= ₹ 8,23,212 + ₹ 70,000 \\
 &= ₹ 8,93,212
 \end{aligned}$$

Unearned finance income = Gross investment – Present value of minimum lease payment and unguaranteed residual value.

$$\begin{aligned}
 &= ₹ 8,93,212 - ₹ 7,00,000 (₹ 6,52,190 + ₹ 47,810) \\
 &= ₹ 1,93,212
 \end{aligned}$$

(b) As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimates of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use.

Company has been following the policy of amortisation of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2013 at ₹ 72 lakhs i.e. ₹ 120 lakhs less 48 lakhs

$$\left(\frac{₹ 120 \text{ Lakhs}}{10 \text{ years}} \times 4 \text{ years} = 48 \text{ Lakhs} \right)$$

The difference of ₹ 16 Lakhs (₹ 88 lakhs – ₹ 72 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 72 lakhs will be amortised over remaining 6 years by amortising ₹ 12 lakhs per year.

(c) Calculation of Profit or Loss to be recognised in the book of Stem Ltd.

| | |
|--|--|
| Forward contract rate | ₹ 62.15 per dollar |
| Less Spot Rate | ₹ 60.75 per dollar |
| Loss | ₹ 1.40 per dollar |
| Forward Contract Amount | US\$ 30000 |
| Total Loss on entering into forward contract | = (US\$ 30,000 x ₹ 1.40) = ₹ 42,000 |

Contract Period 6 Months

Out of total contract period of 6 months, 4 months are falling in the financial year 2013-14. Loss for the period from 1st Dec.2013 to 31st March, 2014= (₹ 42,000/6) x 4 = ₹ 28,000.

Thus the loss amounting to ₹ 28,000 for the period is to be recognised in the year 2013-14.

(d) As per AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognised when:

- (i) An enterprise has a present obligation as a result of past event;
- (ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (iii) A reliable estimate can be made of the amount of the obligation.

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

A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. The possibility of an outflow of resources embodying economic benefits is remote in the given situation, since the directors of WZW Ltd. are of the opinion that the claim can be successfully resisted by the company. Therefore, the company shall not disclose the same as contingent liability. However, following note in this regard may be given in annual accounts:

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed patents and is seeking damages of ₹ 1,000 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company".

Question 2

P and Q were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.2013 was:

| Liabilities | ₹ | Assets | ₹ |
|-------------------|----------|-------------------|--------------------|
| Capital Accounts: | | | |
| P | 1,50,000 | Plant Building | 1,60,000 48,000 |

| | | | | |
|------------------|-----------------|----------|-------------------|-----------------|
| Q | <u>1,30,000</u> | 2,80,000 | Debtors | 75,000 |
| Sundry Creditors | | 80,000 | Stock | 70,000 |
| Bank Overdraft | | 45,000 | Joint Life Policy | 6,000 |
| | | | Profit & Loss A/c | 30,000 |
| | | | Drawings Account: | |
| | | | P | 9,000 |
| | | | Q | <u>7,000</u> |
| | <u>4,05,000</u> | | | <u>16,000</u> |
| | | | | <u>4,05,000</u> |

The operations of the business were carried on till 30.06.2014. P and Q both withdrew in equal amount half the amount of profit made during the current period of six months after charging depreciation at 10% per annum on plant and after writing off 5% on building.

During the current period of six months, creditors were reduced by ₹ 20,000 and bank overdraft by ₹ 5,000.

The joint life policy was surrendered for ₹ 6,000 before 30th June 2014. Stock was valued at ₹ 84,000 and debtors at ₹ 68,000 on 30th June 2014. The other items remained the same as at 31.12.2013.

On 30.06.2014, the firm sold its business to PQ Ltd. The value of goodwill was estimated at ₹ 1,30,000 and the remaining assets were valued on the basis of the balance sheet as on 30.06.2014.

PQ Ltd. paid the purchase consideration in equity shares of ₹ 10 each.

You are required to prepare:

- Balance sheet of the firm as at 30.06.2014,
- Realisation account,
- Partners' Capital Accounts showing the final settlement between them. (16 Marks)

Answer

(a) Balance sheet of the firm as at 30.06.2014

| Liabilities | ₹ | Assets | ₹ |
|-------------------------|----------|--------------------------|--------------|
| <u>Capital Accounts</u> | | Plant : | |
| P's Capital | 1,33,800 | Opening Balance | 1,60,000 |
| Q's Capital | 1,15,800 | Less: Depreciation @ 10% | <u>8,000</u> |
| Creditors | 60,000 | Building: | |
| Bank Overdraft | 40,000 | Opening Balance | 48,000 |
| | | Less: Written-off @ 5% | <u>2,400</u> |
| | | | 45,600 |

| | | | |
|-------|-----------------|---------|-----------------|
| | | Debtors | 68,000 |
| | | Stock | 84,000 |
| Total | <u>3,49,600</u> | Total | <u>3,49,600</u> |

(b)

Realisation AccountDr. Cr.

| Particulars | Amount | Particulars | Amount |
|-------------------|----------|--------------------|----------|
| To Sundry Assets: | | | |
| Plant | 1,52,000 | By Creditors | 60,000 |
| Building | 45,600 | By Bank Over Draft | 40,000 |
| Stock | 84,000 | By PQ Limited A/c | 3,79,600 |
| Debtors | 68,000 | (working note 2) | |
| To Profit: | | | |
| P's Capital A/c | 65,000 | | |
| Q's Capital A/c | 65,000 | | |
| Total | 4,79,600 | Total | 4,79,600 |

(c)

Partner's Capital Account

| Date | Particulars | P (₹) | Q (₹) | Date | Particulars | P (₹) | Q (₹) |
|----------|--------------------------|----------|----------|----------|-----------------------------|----------|----------|
| 01.01.14 | To Profit & Loss A/c | 15,000 | 15,000 | 1.1.14 | By Balance b/d | 1,50,000 | 1,30,000 |
| 01.01.14 | To Drawing A/c | 9,000 | 7,000 | 30.06.14 | By Profit (W. N. 1) | 15,600 | 15,600 |
| 30.06.14 | To Drawing A/c (W. N.-1) | 7,800 | 7,800 | | | | |
| 30.06.14 | To Balance C/d | 1,33,800 | 1,15,800 | | | | |
| | Total | 1,65,600 | 1,45,600 | | Total | 1,65,600 | 1,45,600 |
| | | | | | | | |
| 30.06.14 | To Shares in PQ Limited | 1,98,800 | 180,800 | 30.06.14 | By Balance b/d | 1,33,800 | 1,15,800 |
| | | 1,98,800 | 1,80,800 | 30.06.14 | By Realisation A/c (Profit) | 65,000 | 65,000 |
| | | | | | | | |
| | | | | | | 1,98,800 | 1,80,800 |

Working Notes**(1) Ascertainment of profit for the 6 Months ended 30.06.2014**

| Closing Assets | Amount (₹) |
|-------------------------|------------|
| Stock | 84,000 |
| Debtors | 68,000 |
| Plant Less Depreciation | 1,52,000 |

| | | |
|---|----------|----------|
| Building Less Written off | | 45,600 |
| Total | | 3,49,600 |
| <i>Less: Closing Liabilities:</i> | | |
| Creditors | 60,000 | |
| Bank Over Draft | 40,000 | 1,00,000 |
| Closing Net Assets | | 2,49,600 |
| <i>Less: Opening adjusted Capital</i> | | |
| P (₹1,50,000 – ₹15,000 – ₹9,000) | 1,26,000 | |
| Q (₹1,30,000 – ₹15,000 – ₹7,000) | 1,08,000 | 2,34,000 |
| Profit Net of drawings | | 15,600 |
| Actual Profit for Six Months before drawings(half of profit) = 15,600 x 2 | | 31,200 |
| Combined Drawing during six months (half of profit) | | 15,600 |

(2) Ascertainment of purchase consideration

| | ₹ |
|-------------------------------|----------|
| Closing Net Assets (As above) | 2,49,600 |
| Add Goodwill | 1,30,000 |
| Total Purchase Consideration | 3,79,600 |

Question 3

(a) *X Ltd. granted 500 stock options to its employees on 1.4.2011 at ₹ 50 per share. The vesting period is 2½ years and the maximum exercise period is one year. Market price on that date is ₹ 140 per share. All the options were exercised on 30.06.2014. Pass journal entries giving suitable narrations, if the face value of equity share is ₹ 10 per share.*

(b) *Venus Limited recently made a public issue in respect of which the following information is available:*

- (i) *No. of partly convertible debentures issued 4,00,000; face value and issue price of ₹ 100 per debenture.*
- (ii) *Convertible portion per debenture - 80%, date of conversion - on expiry of 7 months from the date of closing of issue.*
- (iii) *Date of closure of subscription list - 01.06.2013, date of allotment - 01.07.2013, Rate of interest on debentures - 10% p.a. payable from the date of allotment. Value of equity share for the purpose of conversion - ₹ 40 (Face value ₹ 10)*
- (iv) *Underwriting commission - 3%*
- (v) *No. of debentures applied for 3,00,000*

(vi) Interest payable on debentures - half yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended on 31st March, 2014 (including cash and bank entries). (8 + 8 = 16 Marks)

Answer

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

| Date | Particulars | Debit (₹) | Credit (₹) |
|----------|---|------------|------------|
| 31.03.12 | Employees Compensation Expense A/c To Employees Stock Option Outstanding A/c (Being compensation expenses recognised in respect of 500 option granted to employees at discount of ₹90 each, amortised on straight line basis over 2½ years) | Dr. 18,000 | 18,000 |
| | Profit & Loss Account To Employee Compensation Expense A/c (Being compensation expense of the year transferred to profit and loss account) | Dr. 18,000 | 18,000 |
| 31.03.13 | Employee Compensation Expense A/c To Employees Stock Option Outstanding A/c (Being compensation expenses recognised in respect of 500 option granted to employees at discount of ₹90 each, amortised on straight line basis over 2½ years) | Dr. 18,000 | 18,000 |
| | Profit & Loss Account To Employee Compensation Expense A/c (Being compensation expense of the year transferred to profit and loss account) | Dr. 18,000 | 18,000 |
| 31.03.14 | Employee Compensation Expense A/c To Employees Stock Option Outstanding A/c (balance of compensation expenses amortised ₹45000 less ₹36000) | Dr. 9,000 | 9,000 |
| | Profit & Loss Account To Employee Compensation Expense A/c (Being compensation expense of the year transferred to profit and loss account) | Dr. 9,000 | 9,000 |

| | | | | |
|----------|--|------------|--|--|
| 30.06.14 | Bank Account (₹50 x 500) | Dr. 25,000 | | |
| | Employees Stock Option Outstanding A/c (₹ 90 x 500) | Dr. 45,000 | | |
| | To Equity Share Capital Account | 5,000 | | |
| | To Securities Premium Account | 65,000 | | |
| | (Being exercise of 500 stock option at a price of ₹ 50 per share) | | | |

Notes:

1. Total employees compensation expenses
= 500 x (₹140-₹50) = ₹45,000
2. Employees compensation expense has been written off during 2½ years on straight line basis as under:
Ist Year = ₹ 18,000 (for full year)
IInd Year = ₹ 18,000 (for full year)
IIIrd Year = ₹ 9,000 (for half year)

(b)

In the books of Venus Ltd.**Journal Entries**

| Date | Particulars | | Debit (₹) | Credit (₹) |
|----------|--|-----|-------------|-------------|
| 01.06.13 | Bank Account To Debenture Application A/c (Being Application money received on 3,00,000 debentures @ ₹100 each) | Dr. | 3,00,00,000 | 3,00,00,000 |
| 01.07.13 | Debenture Application Account Underwriters Account To 10% Debentures Account (Being Allotment of 3,00,000 debentures to applicants and 1,00,000 debentures to underwriters) | Dr. | 3,00,00,000 | |
| | | Dr. | 1,00,00,000 | 4,00,00,000 |
| | Underwriting Commission To Underwriters Account (Being commission payable to underwriters on 4,00,000 debentures of ₹100 each @ 3%) | Dr. | 12,00,000 | 12,00,000 |

| | | | | |
|----------|---|-----|-------------|--------------------------|
| | Bank Account To Underwriters Account (Being amount received from underwriters on settlement of account) | Dr. | 88,00,000 | 88,00,000 |
| 30.09.13 | Debenture Interest Account To Bank Account (Being interest paid on debentures for 3 months from 01.07.2013 to 30.09.2013 on ₹4,00,00,000 @ 10% p.a.) | Dr. | 10,00,000 | 10,00,000 |
| 31.12.13 | 10% Debentures Account To Equity Share Capital Account To Securities Premium Account (Being conversion of 80% of debentures into shares @ ₹40 per share with face value of ₹10 each) | Dr. | 3,20,00,000 | 80,00,000 2,40,00,000 |
| 31.03.14 | Debenture Interest Account To Bank Account (Being interest paid on debentures for the half year) | Dr. | 12,00,000 | 12,00,000 |
| | Profit and Loss A/c To Debenture Interest A/c (Being debenture interest for the year charged to Profit & Loss A/c) | Dr. | 22,00,000 | 22,00,000 |

Working note:-

Calculation of debenture interest for the half year ended 31st March, 2014

| | ₹ |
|--|------------------|
| On ₹ 80,00,000 for 6 Months @ 10% p.a. | 4,00,000 |
| On ₹ 3,20,00,000 for 3 Months @ 10% p.a. | 8,00,000 |
| Total | 12,00,000 |

Question 4

The Balance Sheet of X Ltd. as at 31st March, 2014 was as follows:

X Limited**Balance Sheet as at 31.03.2014**

| | Particulars | | Amount ₹ |
|-----------|--|------------------|-------------------------|
| I | Equity and Liabilities | | |
| 1 | <i>Shareholders Fund</i> | | |
| | <i>Share Capital</i> | | |
| | 40000 equity shares of ₹100 each fully paid | | 40,00,000 |
| | 20000, 10% preference shares of ₹100 each fully paid | | 20,00,000 |
| | <i>Reserve & Surplus</i> | | |
| | (a) <i>Securities Premium Account</i> | | 1,50,000 |
| | (b) <i>Profit & Loss Account</i> | | (23,00,000) |
| 2. | <i>Non Current Liabilities</i> | | |
| | <i>Long Term Borrowings 7% Debentures of ₹100 each</i> | | 4,00,000 |
| 3. | <i>Current Liabilities</i> | | |
| | <i>Other Current Liabilities</i> | | |
| | (a) <i>Creditors</i> | | 10,00,000 |
| | (b) <i>Loan from Director</i> | | <u>2,00,000</u> |
| | Total Liabilities | | <u>54,50,000</u> |
| II | Assets | | |
| 1 | <i>Non Current Assets</i> | | |
| | <i>Fixed Assets</i> | | |
| | (a) <i>Land & Building</i> | 20,00,000 | |
| | (b) <i>Plant & Machinery</i> | <u>12,00,000</u> | 32,00,000 |
| | <i>Intangible Assets</i> | | |
| | <i>Goodwill</i> | | 4,00,000 |
| 2. | <i>Current Assets</i> | | |
| | (a) <i>Debtors</i> | 12,00,000 | |
| | (b) <i>Stock</i> | 5,00,000 | |
| | (c) <i>Cash at Bank</i> | <u>1,50,000</u> | <u>18,50,000</u> |
| | Total Assets | | <u>54,50,000</u> |

No Dividend on Preference Shares has been paid for last 5 Years.

The following scheme of reorganisation was duly approved by the Court:

- (i) Each equity share to be reduced to ₹ 25.
- (ii) Each existing Preference Share to be reduced to ₹ 75 and then exchanged for one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each.
- (iii) Preference Shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of ₹ 25.
- (iv) The Debenture Holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference Shares of ₹ 50 each issued at par. One-fourth (in value) of the Debenture Holders accepted Preference Shares for their claims. The rest were paid in cash.
- (v) Contingent Liability of ₹ 2,00,000 is payable which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the Company.
- (vi) Goodwill does not have any value in the present. Decrease the value of Plant & Machinery, Stock and Debtors by ₹ 3,00,000; ₹ 1,00,000 and ₹ 2,00,000 respectively. Increase the value of Land & Building to ₹ 25,00,000.
- (vii) 50,000 new Equity Shares of ₹ 25 each are to be issued at par payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.
- (viii) Total expenses incurred by the Company in connection with the Scheme excluding underwriting Commission amounted to ₹ 20,000.

Pass necessary Journal Entries to record the above transactions.

(16 Marks)

Answer

**In the books of X Ltd.
Journal Entries**

| Particulars | | Amount (₹) | Amount (₹) |
|---|-----|------------|------------------------|
| Equity Share Capital (₹ 100) A/c To Equity Share Capital (₹ 25) A/c To Capital Reduction A/c (Being Equity Shares of ₹ 100 each reduced to ₹ 25 each and balance transferred to Capital Reduction a/c) | Dr. | 40,00,000 | 10,00,000 30,00,000 |
| 10% Preference Share Capital (₹ 100) A/c To 10% Preference Share Capital (₹ 75) A/c | Dr. | 20,00,000 | 15,00,000 |

| | | | |
|--|-----|--|----------|
| To Capital Reduction A/c (Being Preference Shares of ₹ 100 each reduced to ₹ 75 each and balance transferred to Capital Reduction A/c) | Dr. | | 5,00,000 |
| 10% Preference Share Capital (₹ 75) A/c To 13% Preference Share Capital (₹ 50) A/c To Equity Share Capital A/c (Being one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each issued against 10% Preference Share of ₹ 75 each) | Dr. | 15,00,000 10,00,000 5,00,000 | |
| Capital Reduction A/c To Preference Share Dividend Payable A/c (Being arrear of Preference Share Dividend payable for one year) | Dr. | 2,00,000 | 2,00,000 |
| Preference Share Dividend Payable A/c To Equity Share Capital A/c (₹ 25) (Being Equity Shares of ₹ 25 each issued for arrears of Preference Share Dividend) | Dr. | 2,00,000 Dr. | 2,00,000 |
| 7% Debenture A/c To Debenture Holders A/c (Being balance of 7% Debentures transferred to Debenture Holders A/c) | Dr. | 4,00,000 | 4,00,000 |
| Debenture Holders A/c To 13% Preference Share Capital A/c To Bank A/c To Capital Reduction A/c (Being 25% of Debenture Holders opted to take 13% Preference Shares at par and remaining took 90% cash payment for their claims) | Dr. | 4,00,000 1,00,000 2,70,000 30,000 | |
| Loan from Director To Provision for Contingent Liability A/c (Being contingent liability of ₹ 2,00,000 is payable and adjusted against loan from Director A/c) | Dr. | 2,00,000 | 2,00,000 |
| Bank A/c | Dr. | 12,50,000 | |

| | | | |
|---|-----|-----------|---|
| To Equity Share Application & Allotment A/c (Being application money received on 50,000 Equity Shares @ ₹ 25 each) | Dr. | 12,50,000 | 12,50,000 |
| Equity Share Application & Allotment A/c To Equity Share Capital A/c (Being application money transferred to Capital A/c on allotment) | Dr. | 12,50,000 | 12,50,000 |
| Underwriting Commission A/c To Bank A/c (Being underwriting commission paid) | Dr. | 50,000 | 50,000 |
| Land & Building A/c To Capital Reduction A/c (Being value of land & Building appreciated) | Dr. | 5,00,000 | 5,00,000 |
| Expenses on Reconstruction A/c To Bank A/c (Being payment of expenses on reconstruction) | Dr. | 20,000 | 20,000 |
| Capital Reduction A/c To Goodwill A/c To Plant & Machinery A/c To Stock A/c To Debtors A/c To Profit & Loss A/c To Expenses on Reconstruction A/c To Underwriting Commission A/c To Capital Reserve A/c (Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c) | Dr. | 38,30,000 | 4,00,000 3,00,000 1,00,000 2,00,000 23,00,000 20,000 50,000 4,60,000 |

Question 5

(a) Metro General Insurance Company submits the following information for the year ended 31st March, 2014:

| Particulars | Director Business (₹) | Reinsurance (₹) |
|------------------------------|--------------------------|--------------------|
| Premium received | 75,25,000 | 8,25,000 |
| Premium paid | - | 4,90,000 |
| Claim paid during the year | 49,70,000 | 5,10,000 |
| Claim payable: | | |
| 1 st April, 2013 | 6,85,000 | 95,000 |
| 31 st March, 2014 | 7,38,000 | 70,000 |
| Claims received | - | 3,95,000 |
| Claims receivable: | | |
| 1 st April, 2013 | - | 75,000 |
| 31 st March, 2014 | - | 1,25,000 |
| Expenses of Management | 2,90,000 | - |
| Commission: | | |
| On Insurance accepted | 1,60,000 | 15,000 |
| On Insurance ceded | - | 18,000 |

The following additional information are also available:

- (1) Expenses of Management include ₹ 45,000 Surveyor's fees and ₹ 55,000 Legal expenses for settlement of claims.
- (2) Reserve for unexpired risk is to be maintained @ 40%. The balance of Reserve for unexpired risk as on 01.04.2013 was ₹ 28,40,000.

You are required to make the Revenue Account for the year ended 31st March, 2014.

(b) A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted asset ratio. State your observation on the risk weighted asset ratio.

| Particulars | Amount (₹ in crores) |
|--|-------------------------|
| Equity Share Capital | 400.000 |
| Statutory Reserve | 250.000 |
| Capital Reserve (of which Reserve ₹ 18 crores were due to revaluation of assets and the balance due to sale of capital assets) | 86.000 |
| <u>Assets</u> | |
| Cash Balance with RBI | 12.00 |

| | |
|--|----------|
| <i>Balance with other Banks</i> | 20.00 |
| <i>Other Investments</i> | 40.00 |
| <u>Loans & Advances</u> | |
| <i>(i) Guaranteed by Government</i> | 14.50 |
| <i>(ii) Others</i> | 5,465.00 |
| <i>Premises Furniture & Fixtures</i> | 74.00 |
| <u>Off Balance Sheet Items</u> | |
| <i>(i) Guarantees and other obligations</i> | 700 |
| <i>(ii) Acceptances, endorsements and letter of credit</i> | 4,900.00 |

(8 + 8 = 16 Marks)

Answer

(a) Form B-RA (Prescribed by IRDA)

Metro General Insurance Company

Revenue Account for the year ended 31st March, 2014

| Particulars | Schedule | Amount (₹) |
|--|----------|---------------------------|
| Premium earned (Net) | 1 | 75,56,000 |
| Interest, dividend and rent | | - |
| Other Income | | <u> </u> |
| Total (A) | | <u>75,56,000</u> |
| Claims incurred (Net) | 2 | 51,63,000 |
| Commission | 3 | 1,57,000 |
| Operating expenses related to insurance business | 4 | 1,90,000 |
| Bad Debts | | <u> </u> |
| Total (B) | | <u>55,10,000</u> |
| Operating profit from insurance business (A-B) | | 20,46,000 |

Schedules forming part of revenue account

Schedule 1: Premium Earned (Net)

| <i>Particulars</i> | <i>Amount (₹)</i> |
|---|-------------------|
| Premium from direct business | 75,25,000 |
| <i>Add:</i> Premium on reinsurance accepted | 8,25,000 |
| <i>Less:</i> Premium on reinsurance ceded | (4,90,000) |

| | |
|---|------------|
| Net Premium | 78,60,000 |
| Adjustment for change in Reserve for unexpired risk (W.N.2) | (3,04,000) |
| Total Premium earned (net) | 75,56,000 |

Schedule 2: Claims Incurred (Net)

| Particulars | Amount (₹) |
|-------------------------------------|------------|
| Claims paid direct business (W.N.1) | 51,23,000 |
| Add: Re-insurance accepted (W.N.1) | 4,85,000 |
| Less: Re-insurance ceded (W.N.1) | (4,45,000) |
| Net Claims paid | 51,63,000 |

Schedule 3: Commission

| Particulars | Amount (₹) |
|---|------------|
| Commission paid on direct business | 1,60,000 |
| Add: Commission on reinsurance accepted | 15,000 |
| Less: Commission on reinsurance ceded | (18,000) |
| | 1,57,000 |

Schedule 4: Operating Expenses related to Insurance Business

| Particulars | Amount (₹) |
|---|------------|
| Expenses of management (2,90,000 – 45,000 – 55,000) | 1,90,000 |
| | 1,90,000 |

Working Notes:

1. Claims incurred

| Particulars | Direct Business (₹) | Re-insurance accepted (₹) | Re-insurance Ceded (₹) |
|---|---------------------|---------------------------|------------------------|
| Paid / received | 49,70,000 | 5,10,000 | 3,95,000 |
| Add: Outstanding at the end of the year | 7,38,000 | 70,000 | 1,25,000 |
| Add: Expenses in connection with settlement of claims (45,000 + 55,000) | 1,00,000 | | |
| Less: Outstanding at the beginning of the year | (6,85,000) | (95,000) | (75,000) |
| | <u>51,23,000</u> | <u>4,85,000</u> | <u>4,45,000</u> |

2. Change in Reserve for unexpired risk

| Particulars | Amount (₹) |
|---|-----------------|
| Opening Reserve as on 31 st March, 2013 | 28,40,000 |
| Less: Closing Reserve as on 31 st March, 2014 (₹78,60,000 x 40%) | (31,44,000) |
| | <u>3,04,000</u> |

(b) Computation of Tier I and Tier II Capital Fund

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

Risk Adjusted Assets

| Particulars | Amount (₹ in crores) | % of weight | Amount (₹ in crores) |
|----------------------------------|-------------------------|-------------|-------------------------|
| Funded Risk Assets | | | |
| Cash Balance with RBI | 12.00 | 0 | 0.00 |
| Balance with other Banks | 20.00 | 20 | 4.00 |
| Other Investments | 40.00 | 100 | 40.00 |
| Loans & Advances : | | | |
| (i) Guaranteed by Government | 14.50 | 0 | 0.00 |
| (ii) Others | 5,465.00 | 100 | 5,465.00 |
| Premises Furniture & Fixture | 74.00 | 100 | <u>74.00</u> |
| Total (i) | | | <u>5583.00</u> |
| Off Balance Sheet Items | | | |
| Guarantees and other obligations | 700.00 | 100 | 700.00 |

| | | | |
|--|----------|-----|-----------|
| Acceptances, endorsements and letter of credit | 4,900.00 | 100 | 4,900.00 |
| Total (ii) | | | 5,600.00 |
| Total [(i) + (ii)] | | | 11,183.00 |

Risk Weighted Assets Ratio:

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

$= (726.10 / 11,183) \times 100$

$= 6.49\%$

At present capital adequacy ratio as per RBI norms is 9%. Therefore, Bank has to improve the ratio by introducing further Tier – I capital or by reducing risk adjusted assets.

Question 6

(a) LMN is having branch at Mumbai. Goods are invoiced to the branch at 25% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses, which are met by the Branch. From the following particulars, prepare branch account in the books of head office:

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|------------|---|------------|
| Stock as on 1 st April, 2013 (Invoice price) | 40,000 | Discount allowed to debtors | 300 |
| Sundry Debtors as on 1 st April, 2013 | 25,000 | Expenses paid by head office: | |
| Cash in hand as on 1 st April, 2013 | 1,000 | Salary | 4,000 |
| Office furniture as on 1 st April, 2013 | 4,000 | Staff Welfare | 750 |
| Goods invoiced from the head office (invoice price) | 1,80,000 | Telephone Expenses | 1,200 |
| Goods return to head office | 6,000 | Other Misc. Expenses paid by branch | 700 |
| Goods return by debtors | 1,250 | Stock as on 31 st March, 2014 (at invoice price) | 35,000 |
| Cash received from Debtors | 65,000 | Depreciation to be provided on branch furniture | 10% p.a. |
| Cash sales | 1,20,000 | | |
| Credit sales | 70,000 | | |

(b) Mega Ltd. has two departments, A and B. From the following particulars, prepare departmental Trading A/c and General Profit & Loss Account for the year ended 31st March, 2014.

| Particulars | Amount (₹) | |
|--|--------------|--------------|
| | Department A | Department B |
| Opening stock as on 01.04.2013 (at cost) | 70,000 | 54,000 |
| Purchases | 3,92,000 | 2,98,000 |
| Carriage Inward | 6,000 | 9,000 |
| Wages | 54,000 | 36,000 |
| Sales | 5,72,000 | 4,60,000 |
| <u>Purchased Goods Transferred</u> | | |
| By Department B to A | 50,000 | |
| By Department A to B | | 36,000 |
| <u>Finished Goods Transferred</u> | | |
| By Department B to A | 1,50,000 | |
| By Department A to B | | 1,75,000 |
| <u>Return of Finished Goods</u> | | |
| By Department B to A | 45,000 | |
| By Department A to B | | 32,000 |
| <u>Closing Stock</u> | | |
| Purchased Goods | 24,000 | 30,000 |
| Finished Goods | 1,02,000 | 62,000 |

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 30% of the closing finished stock with each department represents finished goods received from the other department.

(8 + 8 = 16 Marks)

Answer

(a)

In the books of Head Office - LMN

Mumbai Branch Account (At invoice price)

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|-----------------|---------------|----------------------------|---------------|
| To Balance b/d: | | By Stock Reserve (opening) | 10,000 |
| Stock | 40,000 | By Remittances | |
| Debtors | 25,000 | Cash Sales | 1,20,000 |
| Cash in hand | 1,000 | Cash from Debtors | 65,000 |
| Furniture | 4,000 | By Goods sent to Branch | 1,85,000 |
| | | | 45,000 |

| | | | | |
|---|-----------------|--|--------|-----------------|
| To Goods sent to branch | 1,80,000 | (loading) | | |
| To Goods returned by branch (loading) | 1,500 | By Goods returned by branch (Returns to HO) | | 6,000 |
| To Bank (Expenses paid by Head Office) | | By Balance c/d: | | |
| Salary | 4,000 | Stock | 35,000 | |
| Staff Welfare | 750 | Debtors | 28,450 | |
| Telephone | <u>1,200</u> | Cash (₹1,000-₹700) | 300 | |
| To Stock Reserve (closing) | 8,750 | Furniture (₹4,000-₹400) | 3,600 | |
| To Profit Transferred to General Profit & Loss A/c | 47,150 | | | |
| | <u>3,13,350</u> | | | <u>3,13,350</u> |

Working Note:**Debtors Account**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|-----------------------|---------------|---------------------|---------------|
| To Balance b/d | 25,000 | By Cash A/c | 65,000 |
| To Sales A/c (Credit) | 70,000 | By Sales Return | 1,250 |
| | <u>95,000</u> | By Discount allowed | 300 |
| | | By Balance c/d | <u>28,450</u> |
| | | | <u>95,000</u> |

Note: It is assumed that goods returned by branch are at invoice price.

**(b) Department Trading Account in the books of Mega Ltd.
for the year ended 31st March, 2014**

| Particulars | Department A (₹) | Department B (₹) | Particulars | Department A (₹) | Department B (₹) |
|--------------------|------------------------|------------------------|--------------------|------------------------|------------------------|
| To Opening Stock | 70,000 | 54,000 | By Sales | 5,72,000 | 4,60,000 |
| To Purchase | 3,92,000 | 2,98,000 | By Transfer: | | |
| To Carriage Inward | 6,000 | 9,000 | Purchased Goods | 36,000 | 50,000 |
| To Wages | 54,000 | 36,000 | Finished Goods | 1,30,000 | 1,18,000 |

| | | | | | |
|---------------------|-----------------|-----------------|-------------------|----------|----------|
| To Transfers: | | | By Closing Stock: | | |
| Purchased Goods | 50,000 | 36,000 | Purchased Goods | 24,000 | 30,000 |
| Finished** Goods | 1,18,000 | 1,30,000 | Finished* Goods | 1,02,000 | 62,000 |
| To Gross Profit c/d | <u>1,74,000</u> | <u>1,57,000</u> | | | |
| | 8,64,000 | 7,20,000 | | 8,64,000 | 7,20,000 |

* Finished goods from other department included in closing stock

| Particulars | Department A (₹) | Department B (₹) |
|--|------------------|------------------|
| Stock of Finished Goods | 1,02,000 | 62,000 |
| Stock related to other department (30% of Finished Goods) | 30,600 | 18,600 |

** Net transfer of Finished Goods by

Department A to B = ₹ (1,75,000 – 45,000) = ₹1,30,000

Department B to A = ₹ (1,50,000 – 32,000) = ₹1,18,000

Profit and Loss A/c
For the year ended 31st March, 2014

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|-----------------|----------------------|-----------------|
| To Provision for unrealised profit included in closing stock: | | By Gross Profit b/d: | |
| Department A (W.N.2) | 8,311 | Department A | 1,74,000 |
| Department B (W.N.2) | 4,611 | Department B | 1,57,000 |
| To Net Profit | <u>3,18,078</u> | | |
| | <u>3,31,000</u> | | <u>3,31,000</u> |

Working Notes

1. Calculation of ratio of gross profit margin on sales

| Particulars | Department A (₹) | Department B (₹) |
|---------------------------------|------------------|------------------|
| Sales | 5,72,000 | 4,60,000 |
| Add: Transfer of Finished Goods | 1,75,000 | 1,50,000 |
| | <u>7,47,000</u> | <u>6,10,000</u> |

| | | |
|--------------------------------|--|--|
| Less: Return of Finished Goods | (45,000) | (32,000) |
| | <u>7,02,000</u> | <u>5,78,000</u> |
| Gross Profit | 1,74,000 | 1,57,000 |
| Gross Profit margin = | $\frac{1,74,000}{7,02,000} \times 100 = 24.79\%$ | $\frac{1,57,000}{5,78,000} \times 100 = 27.16\%$ |

2. Unrealised profit included in the closing stock

Department A = 27.16% of ₹ 30,600 (30% of Stock of Finished Goods ₹ 1,02,000) = ₹ 8311.00

Department B = 24.79% of ₹ 18,600 (30% of Stock of Finished Goods ₹ 62,000) = ₹ 4611.00

Question 7

Answer any **four** of the following:

- Give **two** examples of each of the following items:
 - Change in Accounting Policy
 - Change in Accounting Estimate
 - Extra Ordinary Items,
 - Prior Period Item
- What are the indicators of Non-Integral Foreign Operation (NFO)?
- In the following list of shares issued, for the purpose of calculation of weighted average number of shares, from which date weight is to be considered:
 - Equity Shares issued in exchange of cash,
 - Equity Shares issued as a result of conversion of a debt instrument,
 - Equity Shares issued in exchange for the settlement of a liability of the enterprise,
 - Equity Shares issued for rendering of services to the enterprise,
 - Equity Shares issued in lieu of interest and/or principal of an other financial instrument,
 - Equity Shares issued as consideration for the acquisition of an asset other than in cash.
- Also define Potential Equity Share.
- Find out the income to be recognised by ABC Bank Ltd. for the year ended 31st March, 2014 in respect of interest on advances [₹ in Lakhs] as detailed below:

| | Performing Asset | | N.P.A. | |
|--------------------------------|------------------|-------------------|-----------------|-------------------|
| | Interest earned | Interest received | Interest earned | Interest received |
| Terms Loan | 280 | 180 | 170 | 20 |
| Cash credits and overdrafts | 1700 | 1630 | 310 | 48 |
| Bills purchased and discounted | 400 | 400 | 180 | 70 |

(e) State any four alternative accounting treatment of the fund received by an Electricity Company from consumer towards capital expenditure/ service line contributions.

(4 x 4 = 16 Marks)

Answer

(a) (i) Examples of Change in Accounting Policy

- (a) Change of depreciation method from WDV to SLM or vice-versa.
- (b) Change in cost formula in measuring the cost of inventories

(ii) Examples of Change in Accounting Estimate:

- (a) Change in estimate of provision for doubtful debts on sundry debtors
- (b) Change in estimate of useful life of fixed assets.

(iii) Examples of Extra Ordinary Items

- (a) Loss due to earthquakes / fire / strike
- (b) Attachment of property of the enterprises by government.

(iv) Examples of Prior Period Item

- (a) Applying incorrect rate of depreciation in one or more prior periods
- (b) Omission to account for income or expenditure in one or more prior period.

(b) The following are the indicators of Non-Integral Foreign Operations (NFO):

- (i) While the reporting enterprise may control the foreign operation, the activities of foreign operation's are carried independently without much dependence on reporting enterprise.
- (ii) Transactions with the reporting enterprise are not a high proportion of the foreign operation's activities.
- (iii) Activities of foreign operation are mainly financed by its operations or from local borrowings. In other words, it raises finance independently and is in no way dependent on reporting enterprises.
- (iv) Foreign operation's sales are mainly in currencies other than reporting currency.

- (v) Day-to-day cash flow of the reporting enterprises is independent of the foreign operation's cash flow.
- (vi) Sales price of the foreign operations are not affected by the day-to-day changes in exchange rate of the reporting currency but determined more by local competition or local government regulations.
- (vii) There is an active local sales market for the foreign operation's product, although there may be significant amount of exports.
- (viii) Costs of labour, material and other components of foreign operation's products or services are primarily paid or settled in the local currency rather than in the reporting currency.
- (c) The following dates should be considered for consideration of weights for calculation of weighted average number of shares in the given situations:
 - (i) Date of Cash receivable
 - (ii) Date of conversion
 - (iii) Date on which settlement becomes effective
 - (iv) When the services are rendered
 - (v) Date when interest ceases to accrue
 - (vi) Date on which the acquisition is recognised.
- (d) Interest on Performing assets to be recognised on accrual basis, but interest on Non-Performing assets should be recognised on cash basis.

| | | ₹ in Lakhs |
|---------------------------------|-----------|-------------|
| Interest on Term Loan | (280+20) | 300 |
| Cash Credits and Over Drafts | (1700+48) | 1748 |
| Bills Purchases and Discounted | (400+70) | <u>470</u> |
| Total Interest to be recognised | | <u>2518</u> |

- (e) Accounting treatment of the fund received by an Electricity Company from consumer towards capital expenditure / service line contributions can be given as follows:
 - (i) Amount received from consumer towards capital/service line contributions is accounted as liability and subsequently recognised as income over the life of the asset;
 - (ii) Amount received from consumer towards capital/service line contributions is accounted as reserves as the amount is not refundable and reported under the head

Reserves and Surplus without transferring any proportionate amount to the income statement over the life of asset;

- (iii) Amount received from consumer towards capital/service line contributions is accounted as Capital Reserve as the amount is not refundable and subsequently proportionate amount is transferred to income statement during the expected life of asset to match against depreciation on total cost of such asset;
- (iv) Amount received from consumer towards capital/service line contributions is accounted as reduction in the cost of Non-current Asset and depreciation may be provided on such reduced cost.