REVISIONARY TEST PAPER

DECEMBER 2010

GROUP I

DIRECTORATE OF STUDIES

THE INSTITUTE OF
COST AND WORKS ACCOUNTANTS OF INDIA

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GROUP - I

Paper-5 : FINANCIAL ACCOUNTING

INTERMEDIATE EXAMINATION

(REVISED SYLLABUS - 2008)

GROUP - I

Paper-5 : FINANCIAL ACCOUNTING

Q. 1. State whether following statements are True/False.

(i) Expenses + Loss+ Assets=Income+ Gains+ Liabilities.

(ii) Bank Overdraft is a Real Account.

(iii) Short workings is the amount by which the minimum rent falls short of the actual royalty.

(iv) Hire purchase stock represents the installments from buyers not yet due.

(v) Life Membership fee is an item of liability in case of a club.

(vi) The inventory under AS 2 is valued on the basis of cost price or current replacement cost which ever is lower.

(vii) Goodwill is a fictitious asset.

(viii) Debit balance in the Profit and Loss A/c is treated as surplus.

(ix) A and B divide profit in the ratio of 5:3. Z is admitted for 1/5 share in the business. The new profit sharing ratio is 5:3:2.

(x) Gaining Ratio is applicable at the time of retirement of a partner.

(xi) The contract of insurance is a contract of guarantee.

(xii) Issue of Sweat Equity shares is a non-cash transaction.

(xiii) Stock Turnover ratio is Average Stock/Net Sales.

(xiv) High Capital Gearing ratio means high return to equity shareholders even in case of low profit.

(xv) AS 4 deals with prior period adjustments.

(xvi) The amortization of the amount of software commences from the date when it is available for use.

(xvii) Changing of rings and pistons of an engine to increase efficiency is in the nature of revenue expenditure.

(xviii) Preference shares may be redeemed from the General Reserve.

(xix) In case of a Branch situated in New York, Balance in 'Head Office A/c' in the Branch Books is to be taken at Dollars.

(xx) Buy back is permitted only in respect of fully paid-up shares.

Answer 1.

(i) The Statement is True.

(ii) False – Bank O/D is a personal account.

(iii) False – Short workings is the amount by which the minimum rent exceeds the actual royalty.

(iv) The Statement is True.

(v) The Statement is True.

(vi) False – As per AS 2 on valuation of inventories, inventory is valued at the lower of historical cost and net realizable value.

(vii) False – Goodwill is an intangible asset.

(viii) False – Debit balance in the Profit and Loss A/c is treated as deficit or loss as expenses are more than income.

(ix) True – A's new share is 5/8*4/5=1/2. B's new share is 3/8*4/5=3/10. So new share is (½:3)/(10:1/5). Multiplying the ratio with 10, the new ratio is 5:3:2.

(x) The Statement is True.

(xi) False – The contract of insurance is a contract of indemnity.

(xii) The Statement is True.

(xiii) Stock Turnover ratio Cost Of Goods Sold/ Average Stock.

(xiv) False – High Capital Gearing ratio means high return to equity shareholders in case of high profit.

(xv) False – AS 4 deals with Contingencies and Events occurring after the Balance Sheet Date.

(xvi) The Statement is True.

(xvii) The Statement is True.

(xviii) False – According to Section 80 of the Companies Act Preference Shares can be redeemed out of profits or out of fresh proceeds of a fresh issue of shares made for the purpose of redemption.

(xix) False – It should be taken at Indian Rupees.

(xx) The Statement is True.

Q. 2A. Choose the correct alternative :

(i) Bank Reconciliation Statement is prepared to :

(a) rectify the mistakes in pass book.

(b) to rectify the mistakes in cash book.

(c) to arrive at balance as per bank statement.

(d) to find the reasons of differences in balance as per Cash Book and Bank Statement.

(ii) Which of the following is a Revenue Expenditure?

(a) Construction of Factory shed.

(b) Sales Tax paid in connection with purchase of Office Equipment.

(c) Legal Expenses in connection with defending a title to firm's property.

(d) License fees.

(iii) Capital is shown on the liability side because of :

(a) Business Entity Concept.

(b) Conservatism Concept.

(c) Accrual Concept.

(d) Duality Concept.

(iv) Depreciation is a process of:

(a) apportionment

(b) valuation

(c) allocation

(d) appropriation

(v) For Sales Return at Branch, in case of dependent branches, entry to be passed in HO books,

(a) Debit Branch Debtors A/c, Credit Branch Stock A/c.

(b) Debit Branch Stock A/c , Credit Branch Debtors A/c.

(c) Debit Sales A/c, Credit Branch Debtors A/c.

(d) Debit Sales A/c, Credit Branch Stock A/c.

(vi) Which of the following is treated as contingent liability as per AS 4?

(a) Obligations under retirement benefit plan.

(b) Commitments arising from long term lease contract.

(c) Arrears of fixed cumulative dividends.

(d) Liabilities of Life and General Insurance out of policies issued by enterprise.

(vii) Which of the following is not a unsecured loan in Balance sheet of a Company?

(a) Acceptance of Fixed Deposits.

(b) Creation of Sinking Funds.

(c) Loans and advances from others.

(d) Short term loans from Banks.

(viii) Any profit prior to incorporation may be:

(a) Credited to Capital Reserve A/c.

(b) Debited to Goodwill A/c

(c) Debited to Suspense A/c

(d) None of the above.

(ix) Which of the following terms is related to Accounts of Electricity Companies?

(a) Clear profit

(b) Work uncertified

(c) NPA

(d) Claims outstanding.

(x) Current Ratio is a :

(a) Efficiency Ratio

(b) Profitability Ratio

(c) Solvency Ratio

(d) Yield Ratio.

Answer 2A.

(i) (d) to find the reasons of differences in balance as per Cash Book and Bank Statement.

(ii) (c) Legal Expenses in connection with defending a title to firm's property.

(iii) (a) Business Entity Concept.

(iv) (c) allocation

(v) (b) Debit Branch Stock A/c , Credit Branch Debtors A/c.

(vi) (c) Arrears of fixed cumulative dividends.

(vii) (b) Creation of Sinking Funds.

(viii) (a) Credited to Capital Reserve A/c.

(ix) (a) Clear profit.
(x) (c) Solvency Ratio.

Q. 2B. Match the items in Column (I) with the items shown in Column (II) :

Column (I)	***Column (II)***
(i) Minimum Rent	**(a) Insurance A/c**
(ii) Average Clause	**(b) Contract A/c**
(iii) Undervaluation of asset	**(c) Sinking Fund**
(iv) Work certified	**(d) Company Accounts**
(v) DRFI	**(e) Capital Reserve**
(vi) Money at call and in short notice	**(f) Allocation**
(vii) Calls-in-arrear	**(g) Royalty A/c**
(viii) Profit Prior to Incorporation	**(h) Appropriation**
(ix) Charging of Depreciation	**(i) Bank Account**
(x) Charging of Rent	**(j) Secret Reserve**

Answer 2B.

Column (I)	**Column (II)**
(i) Minimum Rent	(a) Royalty A/c
(ii) Average Clause	(b) Insurance A/c
(iii) Undervaluation of asset	(c) Secret Reserve
(iv) Work certified	(d) Contract A/c
(v) DRFI	(e) Sinking Fund
(vi) Money at call and in short notice	(f) Bank Account
(vii) Calls-in-arrear	(g) Company Accounts
(viii) Profit Prior to Incorporation	(h) Capital Reserve
(ix) Charging of Depreciation	(i) Allocation
(x) Charging of Rent	(j) Appropriation

Q. 2C. Fill up the blanks :

(i) Recording of fixed assets at cost ensures adherence of _________ concept.

(ii) Conversion of debt into equity shares is _________ transaction.

(iii) Amount received on account of Legacies is generally taken to _________ .

(iv) Errors in Principle _________ affect Balance Sheet.

(v) Average Clause is intended to discourage _________ .

(vi) Premium brought in by a new partner is shared among old partners in their _________ ratios.

(vii) As per AS 28 recoverable amount of an asset is higher of _________ and Value in use.

(viii) Yield method of valuing shares is also known as _________ method.

(ix) Cost of incorporating a Company should be debited to _________ A/c.

(x) Velocity Ratios are also known as _________ ratios.

(xi) The Double Account System is a method of presenting Annual Financial statements of _________ .

Answer 2C.

(i) cost
(ii) non-cash
(iii) Balance Sheet
(iv) does not
(v) under-insurance
(vi) sacrificing
(vii) Net selling price
(viii) Earning Capacity
(ix) Preliminary Expenses
(x) Turnover
(xi) Public Utility Concerns

Q. 3. NN Ltd. owns certain patent rights. It has granted a license to AA Ltd. to use such rights on royalty basis. The Royalty payable is Rs. 50 per unit produced. AA Ltd. Has issued sub-license to KK Ltd. On the basis of a Royalty of Rs. 60 per unit sold. The minimum Royalty payable by KK Ltd is fixed at Rs. 75000/- per annum. Short Workings can be recouped within one year from the last date of the year in which they occur.

The following particulars are available for the first three years of working :

AA Ltd.

Year	Sales (units)	Closing Stock (units)
1	6000	1500
2	7500	3000
3	13500	4500

KK Ltd.

Year	Production (units)	Closing Stock (units)
1	600	300
2	3000	600
3	4500	1350

You are required to :

(a) Prepare in books of AA Ltd. a statement showing analysis of Royalties Receivable and Royalties Payable, and

(b) Show Royalty Receivable A/c and Royalty Payable A/c in books of AA Ltd.

Answer 3.

Books Of AA Ltd.

Analysis of Royalty Payable

Year	Production (Consolidated Units)	Rate Rs.	Amount Rs.
1	7500+600 = 8100	50	405000
2	9000+3000 = 12000	50	600000
3	15000+4500 = 19500	50	975000

Analysis of Royalty Receivable

Year	Sales Unit	Minimum Rent	Royalty @Rs.60	Excess of Royalty over Min. Rent	S/W Occurred (Rs)	S/W Adjusted (Rs)	S/W Lapsed (Rs)	S/W c/f (Rs)	Amount Receivable (Rs)
1	300	75000	18000	-	57000	-	-	57000	
2	2700	75000	162000	87000	-	57000	-	-	105000
3	3750	75000	225000	150000	-	-	-	-	225000

Dr. **Royalty Payable Account** *Cr.*

Year end

1	To NN Ltd	405000	1	By Royalty Receivable A/c	30000
				By P/L A/c	375000
		405000			405000
2	To NN Ltd	600000	2	By Royalty Receivable A/c	150000
				By P/L A/c	450000
		600000			600000
3	To NN Ltd	975000	3	By Royalty Receivable A/c	225000
				By P/L A/c	750000
		975000			975000

Dr. **Royalty Receivable Account** *Cr.*

Year end

1	To Royalty Payable A/c 600 × Rs.50	30000	1	By KK Ltd.	18000
				By P/L A/c	12000
		30000			30000
2	To Royalty Payable A/c	150000	2	By KK Ltd.	162000
	To P/L A/c	12000			
		162000			162000
3	To Royalty Payable A/c	225000	3	By KK Ltd.	225000

Q. 4. GHI Associates entered into a financial lease agreement on 1.4.2006 with FBG Leasing Ltd. for lease of a car. The price of the car was Rs. 400,000 and the quarterly lease rentals were agreed at Rs. 90 per thousand payable at the beginning of every quarter. ABC Associates kept up their payments but by 25.3.2007 they approached and obtained the consent of the leasing company for treating the arrangement as one of Hire-purchase from the beginning on the following terms :

Period: 3 years

Quarterly hire : Rs. 60,000 payable at the beginning of the quarter.

It was agreed that the lease rentals paid will be treated as hire monies and that the balance due upto 31.3.2007will be settled by GHI Associates on that date with interest at 18% p.a. on various instalments due during the year. The rate of depreciation on the car is 25%.

Show the following accounts in the books of ABC Associates for the year 2006-2007.

FBG Leasing Ltd.'s A/c and Interest Suspense A/c.

Calculations are to be rounded off to the nearest rupee.

Answer 4.

Books of GHI Associates

FBG Leasing Limited Account

Dr. *Cr.*

		Rs.			Rs.
2007			*2007*		
March 25	To Lease rental A/c	144000	March 25	By Car on Hire Purchase A/c	400,000
March 31	To Bank	106800	March 25	By Interest Suspense A/c	320000
March 31	To Balance c/d	480000		By Interest A/c	10800
		730800			730800

Interest Sustpense Account

Dr. *Cr.*

		Rs.			Rs.
2007			*2007*		
March 25	To FBG Leasing Ltd. A/c	320000	March, 31	By Interest on Hire purchase A/c	145454
			March, 31	By Balance c/d	174546
		320000			320000

Working Notes :

(i) Calculation of balance payable on 31st March, 2006 and the Amount of Interest

Calculation of Difference Payable on 31.3.2007and Interest

Date	Quarterly Hire Charges Rs.	Quarterly Lease Rental Paid Rs.	Difference Payable Rs.	Interest From	(18% p.a) To	Amount of Interest Rs.
1.4.06	30,000	36000	24000	1.4.06	31.3.07	4320
1.7.06	30,000	36000	24000	1.7.06	31.3.07	3240
1.10.06	30,000	36000	24000	1.10.06	31.3.07	2160
1.1.07	30,000	36000	24000	1.1.07	31.3.07	1080
		144000	96000			10800

Amount payable on 31st March, 2007

	Rs.
Balance due	96000
Interest due	10800
	106800

(1) Ascertainment of Total Amount of Interest on Hire Purchase

	Rs.
Hire Purchase Price of the car	
(Rs. 60,000 × 12 installments)	720000
Less : Cash Price	400000
Total Amount of Interest	320000

(2) Calculation of Interest on Hire Purchase Attributable to the year 2006-2007

Date	Interest Calculation	Interest Rs.
1.4.06	—	—
1.7.06	320000 × 11/66	53333
1.10.06	320000 × 10/66	48485
1.1.07	320000 × 9/66	43636
		145454

Q. 5. The Balance Sheet of New City College as at 31st March 2009 was as follows:

	Rs.		**Rs.**
Capital Fund	2100000	Land and Building	2000000
Building Construction Fund	800000	Furniture	300000
General Fund Outstanding	640000	Laboratory Equipment	250000
Salary(teachers)	160000	Library Books	360000
		Investments	650000
		Accrued Tuition Fee	10000
		Cash and Bank	130000
	3700000		**3700000**

The Receipts and Payments account for the year ended 31st March 2010 was drawn as under:

	Rs.		**Rs.**
To Opening Bal.(1/4/2009)	130000	By Salaries & Allowances(teachers)	4200000
To Govt . Grants	5000000	By non- teaching staff	2000000
To Donation for Building Construction	200000	By Printing & Stationary	80000
To Tuition fees & session charges	1820000	By Lab. Exp	60000
To Investment Income	70000	By Lab. Equipment	120000
To Rental Income (College Hall)	40000	By Library Books	250000
		By Office Equipment	60000
		By Electricity & Telephone	75000

		By Audit Fees	2000
		By Municipal Taxes	1000
		By Building Repairs	40000
		By Purchase of Furniture	80000
		By Games and Sports	20000
		By Welfare Exp.	30000
		By New Investments	150000
		By Cl.Bal. (31/3/2010)	92000
	7260000		**7260000**

Other informations :

(i) Tuition fee outstanding as on 31/3/2010 – Rs . 40000

(ii) Salary of teaching staff outstanding for March 2010-Rs. 250000

(iii) Books received as donations from various parties- Rs. 30000 (valued)

(iv) Outstanding building repair expenses as on 31/3/2010-Rs. 15000

(v) Applicable depreciation rates :

Land and Building	2%
Furniture	8%
Lab. Equipment	10%
Library Books	20%

You are required to prepare the Income and Expenditure A/c for the year ended 31st March 2010 and a Balance Sheet as on that date.

Answer 5.

New City College

Income and Expenditure A/c for the year ended 31/3/2010

		Rs.			**Rs.**
To Salaries :			Tuition Fees	1820000	
Teaching staff	4200000		*Add* : Outstanding	40000	
Add: Outstanding	250000			1860000	
	4450000		*Less* : Accrued last year	10000	1850000
Less: Last year Liability	160000	4290000	Revenue Grant		5000000
Non-teaching staff		2000000	Investment income		70000
Building Repairs	40000		Rental Income		40000
Add: Outstanding	15000	55000	Value of donation of books		30000
Office Exp.		60000			
Printing & Stationary		80000			
Lab. Exp		60000			
Electricity & Telephone		75000			
Audit Fee		2000			

Municipal Tax		1000		
Games & Sports		20000		
Welfare Expenses		30000		
Depreciation : Building	40000			
Furniture	30400			
Lab. Equip	37000			
Book	128000	235400		
Excess of Income over Expenditure transferred to General Fund		81,600		
		6990000		**6990000**

Balance Sheet as on 31/3/2010

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital Fund		2100000	Land & Buildings	2000000	
Building Construction Fund	800000		*Less*: Depreciation	40000	1960000
Add: Donation	200000	1000000	Furniture	300000	
General Fund	640000		Additions	80000	
Add: Transfer from Income & Exp. A/c	81600	721600		380000	
Outstanding Teachers' Salary		250000	*Less*: Depreciation	30400	349600
Outstanding Building Repair Exp.		15000	Lab Equipment	250000	
			Addition	120000	
				370000	
			Less: Depreciation	37000	333000
			Library Books	360000	
			Addition	250000	
			Donated Value	30000	
				640000	
			Less: Depreciation	128000	512000
			Investments	650000	
			Addition	150000	800000
			Tuition Fee accrued		40000
			Cash and Bank		92000
		4086600			**4086600**

Q. 6. The following information were obtained from the books of Dignity Foundation Recreation Club as on 31.3.2009. At the end of first year of the club you are asked to prepare Receipts and Payments Account, Income and Expenditure Account for the year ended 31.3.2009 and a Balance Sheet as at 31.3.2009 on mercantile basis :

(i) Donation received for building and library room : Rs. 100000/-

(ii) Other revenue income and actual receipts :

	Revenue Income Rs.	Actual Receipts Rs.
Entrance Fees	20000	20000
Subscription	17000	16000
Locker rent	800	800
Sundry Income	1400	860
Refreshment Account	-	20000

(iii) Other revenue expenditure and actual payments :

	Revenue Expenditure Rs.	Actual Payment Rs.
Land (Cost Rs. 10000)	-	10000
Furniture (Cost Rs. 146000)	-	130000
Salaries	6000	5800
Maintenance of club	3000	2000
Rent	6000	6000
Refreshment Account	-	12000

Donations to the extent of Rs. 12500/- were utilized for purchase of library books, balance was still unutilized. In order to keep it safe ,9% Govt. bonds of Rs. 80000/- were purchased on 31.3.2009. Remaining amount was put in the bank on 31.3.2009 under term deposit. Depreciation at 10% p.a. was to be provided for the whole year on Furniture and Library books.

Answer 6.

Dignity Foundation Recreation Club

Dr. **Receipts and Payments Account for the Year ended 31st March, 2009** *Cr.*

Receipts	Rs	Payments	Rs.
To Donation for Building and Library Room	100000	By Land By Furniture	10000 130000
To Entrance Fees	20000	By Salaries	5800
To Subscription	16000	By Maintenance of Club	2000
To Locker Rents	800	By Rent	6000
To Sundry Income	860	By Repayment	12000
To Refreshment	20000	By Library Books	12500
		By 9% Govt. Bonds	80000
To Balance c/d (O/D)	108140	By Term Deposits	7500
	265800		**265800**

Dr. **Income and Expenditure Account for the Year ended 31.3.09** *Cr.*

Expenditure	**Rs.**	**Rs.**	**Income**	**Rs.**	**Rs.**
To Salaries	5800		By Entrance fees		20000
Add: Outstanding	200	6000	By Subscription	16000	
To Maintenance of Club	2000		*Add*: Outstanding	1000	17000
Add: Outstanding	1000	3000	By Locker Rent		800
To Rent		6000	By Sundry Income	860	
To Depreciations:			*Add*: Outstanding	540	1400
Furniture	14600		By Refreshment		8000
Library Books	1250	15850	(20000-12000)		
Surplus of Income over Expenditure		16350			
		47200			**47200**

Balance Sheet as at 31st March, 2009

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital fund (surplus)		16350	Land		10000
Building and Library Room Fund		100000	Furniture	146000	
Creditors for Furniture		16000	*Less*: Depreciation	14600	131400
Creditors for Expenses :			Library books	12500	
Outstanding Salaries		200	*Less*: Depreciation	1250	11250
Maintenance of Club		1000	9% Govt. Bonds		80000
Bank O/D		108140	Bank term deposit		7500
			Subscriptions receivable		1000
			Sundry Income Receivable		540
		241690			**241690**

Working Notes :

Bank Term Deposit : Donation received 100000

Donation Utilised 12500 Govt Bond, 80000 = Rs. 7500

Q. 7. A, B and C were in partnership sharing profits and losses in the ratio of 9 : 4 : 2. B retired from the partnership on 31st March, 2010, when the firm's balance sheet was as under :

Rs. in thousand

		Rs.		**Rs.**
Sundry creditors		**900**	**Cash and bank**	**426**
Capital accounts :			**Sundry debtors**	**600**
A	**4050**		**Stock**	**1200**
B	**1800**		**Furniture**	**399**
C	**900**	**6750**	**Plant**	**1275**
			Land and building	**3750**
		7650		**7650**

B's share in goodwill and capital was acquired by A and C in the ratio of 1 : 3, the continuing partners bringing in the necessary finance to pay off B. The partnership deed provides that on retirement or admission of a partner, the goodwill of the firm is to be valued at three times the average annual profits of the firm for the four years ended on the date of retirement or admission. The profits of the firm during the four years ended 31st March, 2010 in thousands of rupees were :

	Rs.
2006-07	**675**
2007-08	**375**
2008-09	**900**
2009-10	**1050**

The deed further provided that goodwill account is not to appear in the books of accounts at all. The continuing partners agreed that with effect from 1st April, 2010, G, son of A is to be admitted as a partner with 25% share of profit.

A gifts to G, by transfer from his capital account, an amount sufficient to cover up 12.5% of capital and goodwill requirement. The balance 12.5% of capital and goodwill requirement is purchased by G from A and C in the ratio of 2 : 1.

The firm asks to you :

(i) Prepare a statement showing the continuing partners' shares;

(ii) Pass journal entries including for bank transactions; and

(iii) Prepare the balance sheet of the firm after G 's admission.

Answer 7.

(i) Statement showing the partners' shares

	A	*B*	*C*	*G*
Ratio before retirement of B	$\frac{9}{15}$	$\frac{4}{15}$	$\frac{2}{15}$	
Adjustment on retirement	(+) $\frac{1}{15}$	—	(+) $\frac{3}{15}$	
New ratio before admission of G	$\frac{10}{15}$		$\frac{5}{15}$	
On admission of G Gift by A ($\frac{12.5}{100}$)	(–) $\frac{1}{8}$			$\frac{1}{8}$
Purchase from A & C.*	(–) $\frac{2}{24}$		(–) $\frac{1}{24}$	(+) $\frac{3}{24}$
New ratio	$\frac{11}{24}$		$\frac{7}{24}$	$\frac{6}{24}$

* Purchase from A = $\frac{10}{15}$ × 1/8 = 2/24

Purchase from C. = $\frac{5}{15}$ × 1/8 = 1/24 —

(ii) **Journal Entries**

		Dr. Rs.	Cr. Rs.
1.	A's capital A/c Dr.	1,50,000	
	C 's capital A/c Dr.	4,50,000	
	To B's capital A/c		6,00,000
	(Being purchase of goodwill by A and C from B)		
2.	A's capital A/c Dr.	11,25,000	
	To G's capital A/c		11,25,000
	(Being gift made by A to G)		
3.	Bank A/c Dr.	46,50,000	
	To A's capital A/c		11,62,500
	To C's capital A/c		20,81,250
	To G's capital A/c		14,06,250
	(Being capital brought in by the partners)		
4.	B's capital A/c Dr.	24,00,000	
	To Bank A/c		24,00,000
	(Being final payment made to B on retirement)		
5.	G's capital A/c Dr.	2,81,250	
	To A's capital A/c		1,87,500
	To C's Capital A/c		93,750
	(Being goodwill adjusted on admission)		

(iii) **Balance Sheet as on 1st April, 2010**

Liabilities		Rs.	Assets	Rs.
Sundry creditors		9,00,000	Cash and bank	2676,000
Capital accounts :			Sundry debtors	6,00,000
A	4125,000		Stock	12,00,000
C	2625,000		Furniture	399,000
G	2250,000		Plant	1275,000
		90,00,000	Land and building	3750,000
		99,00,000		**99,00,000**

Working Notes :

(Rs. in thousand)

(1) Adjustment of Goodwill on Retirement :

Value of Goodwill = Average Profits × Years of Purchase

Share of B = 2250 × 4/15 = 600

Average Profits $= \dfrac{675+375+900+1050}{4}$

$\therefore$ Value of Goodwill = 750 × 3 = 2250

Adjustment through partners' capital accounts

A : ¼*600=150(Dr.)

B : 4/15*2250=600(Cr.)

C : ¾*600=450(Dr.)

(2) Closing Balances of Capital Accounts

B's share of capital (including goodwill) = 1,800 + 600 = 2400

This represents 4/15th share of capital requirement of the firm.

Thus, total capital = 2400*15/4=9000

Hence, closing capital balances (in new profit sharing ratio of 11 : 7 : 6) should be adjusted as follows:

A : 11/24*9000=4125

C : 7/24*9000=2625

G :6/24*9000=2250

(3) Gift by A to G : ½*2250=1125

(Debit to A's capital A/c and credit to G's capital A/c)

(4) Adjustment of Goodwill on Admission

Goodwill of the firm = 2250

G's share of goodwill = 6/24 × 2250

= 562.50

(a) Gift by A = ½*562.50

= 281.25

(Included in the gift of 1125 – see W.N. 3)

(b) Purchase from A and C = 281.25

(in 2 : 1 ratio)

Thus, adjustment of goodwill purchased through capital accounts

A : 2/3*281.25=187.50(Cr.)

C : 1/3*281.25=93.75(Cr.)

G : ½*562.50=281.25(Dr.)

(5) Amount brought in by Partners

Dr. **Partners' Capital Accounts** *Cr.*

	A **Rs.**	***B*** **Rs.**	***C*** **Rs.**	***G*** **Rs.**		***A*** **Rs.**	***B*** **Rs.**	***C*** **Rs.**	***G*** **Rs.**
To B	150	—	450	—	By Balance b/d	4050	1800	900	—
To G	1125	—	—	—	By A and C	—	600	—	—
To A & C	—	—	—	281.25	By Cash and Bank	1162.5	—	2081.25	1406.25
To Cash and Bank	—	2400	—	—	(Bal. figure)				
To Balancd c/d	4125	—	2625	2250	By A	—	—	—	1125.00
					By G	187.5	—	93.75	—
	5400	2400	3075	2531.25		5400	2400	3075	2531.25

(5) Cash and Bank

Amount given (as on 31.3.10)	426
Amount brought in by partners	4650
(1162.50 + 2081.25 + 1406.25)	
	5076
Less : Payment to B	2400
Balance as on 1.4.10	2676

Net increase = Rs. 2676

(Equivalent to the value of goodwill)

Q. 8. The firm of PQR & Associates was dissolved on 31.3.2010, at which date its Balance Sheet stood as follows :

Liabilities	Rs.	Assets	Rs.
Creditors	**5,00,000**	**Fixed Assets**	**1,12,50,000**
Bank Loan	**12,50,000**	**Cash and Bank**	**5,00,000**
P's Loan	**25,00,000**		
Capital			
P	**37,50,000**		
Q	**25,00,000**		
R	**12,50,000**		
Total	**1,17,50,000**		**1,17,50,000**

Partners share profits equally. A firm of Professional Accountants is retained to realize the assets and distribute the cash after discharge of liabilities. Their fees which are to include all expenses is fixed at Rs. 2,50,000. No loss is expected on realization since fixed assets include valuable land and building.

Realisations are :

S.No.	Amount in Rs.
1	**7,50,000**
2	**37,50,000**
3	**37,50,000**
4	**75,00,000**
5	**75,00,000**

The Accountant in the firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

Answer 8.

M/s PQR & Associates
Statement of showing Distribution of Cash
(Under Higher Relative Capital method)

Particulars	Amount available	Creditors	Bank Loan	P's loan	Capital A/cs		
					P	Q	R
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance due		5,00,000	12,50,000	25,00,000	37,50,000	25,00,000	12,50,000
1st Instalment (including cash and bank balances)	12,50,000						
Less: Liquidator's Expenses and fees	2,50,000						
	10,00,000						
Less: Payment to Creditors and repayment of Bank Loan in the ratio of 2:5	(10,00,000)	(2,85,715)	(7,14,285)	–	–	–	–
Balance Due	Nil	2,14,285	5,35,715	25,00,000	37,50,000	25,00,000	12,50,000
2nd Instalment	37,50,000						
Less: Payment to Creditors and repayment of bank loan in full settlement	(7,50,000)	214285	535715	–	–	–	–
	30,00,000	–	–				
Less: Repayment of P's Loan	25,00,000	–	–	(25,00,000)	–	–	–
	5,00,000						
Less: Payment to Mr. P towards relative higher capital (W.N. 1)	(500000)				5,00,000	–	–
Balance Due	Nil				3250000	2500000	1250000
3rd Instalment	37,50,000						
Less: Payment to Mr. P towards higher relative capital (W.N. 2)	(7,50,000)				7,50,000		
	30,00,000				25,00,000	25,00,000	1250000
Less: Payment to Mr. Q & Mr. R towards excess capital (W.N. 1&2)	(25,00,000)				12,50,000	12,50,000	
	5,00,000				12,50,000	12,50,000	12,50,000
Less: Payment to all the partners equally	(5,00,000)				1,66,667	1,66,667	1,66,666
	Nil				10,83,333	10,83,333	10,83,334
Balance due							
4th Instalment	75,00,000						
Less: Payment to all the partners equally	(75,00,000)				25,00,000	25,00,000	25,00,000
Realisation profit credited to Partners					14,16,667	14,16,667	14,16,666
5th Instalment	75,00,000						
Less: Payment to all partners equally	(75,00,000)				12,50,000	12,50,000	12,50,000
Realisation profit credited to partners					26,66,667	26,66,667	26,66,666

Working Notes :

(i) Scheme of payment of surplus amount of Rs. 5,00,000 out of second Instalment :

	Capital A/cs		
	P ***Rs.***	***Q*** ***Rs.***	***R*** ***Rs.***
1. Capital Balance	37,50,000	25,00,000	12,50,000
2. Profit Sharing Ratio (PSR)	1	1	1
3. Proportionate Capital (1÷2)	37,50,000	25,00,000	12,50,000
4. Taking R's Capital as Base (being the smallest × PQR)	12,50,000	12,50,000	12,50,000
5. Surplus Capital (1-4)	25,00,000	12,50,000	Nil
6. PSR	1	1	—
7. Proportionate Capital (5÷6)	25,00,000	12,50,000	—
8. Taking Q's Capital as Base (being the smallest) × PSR	12,50,000	12,50,000	—
9. Absolute Surplus (5-8)	12,50,000	—	—

So Mr. P should get Rs. 12,50,000 first which will bring down his capital account balance from Rs. 37,50,000 to Rs. 25,00,000. Accordingly, surplus amounting to Rs. 5,00,000 will be paid to Mr. P towards higher relative capital.

(ii) Scheme of payment of Rs. 37,50,000 realized in 3rd Installment :

– Payment of Rs. 7,50,000 will be made to Mr. P to discharge higher relative capital. This makes the higher capital of both Mr. P and Mr. Q Rs. 12,50,000 as compared to capital of Mr. R.

– Payment of Rs. 12,50,000 each of Mr. P & Mr. Q to discharge the higher capital.

– Balance Rs. 5,00,000 equally to P, Q and R, i.e., Rs. 166,667 Rs. 1,66,667 and Rs. 1,66,666 respectively.

Q. 9. D, E and F were partners in business, sharing profits & losses in the ratio 2:1:1. Their Balance Sheet as at 31.3.10 is as follows :

Balance Sheet as at 31.3.10 **(Figures in Rs.'000)**

Liabilities		**Rs.**	**Assets**		**Rs.**
Fixed Capital:			**Fixed Assets**		**900**
D	**600**		**Investments**		**150**
E	**300**		**Current Assets:**		
F	**300**	**1200**	**Stock**	**300**	
Current Accounts:			**Debtors**	**180**	
D	**120**		**Cash & Bank**	**450**	**930**
E	**60**	**180**			
Unsecured Loans		**600**			
		1980			**1980**

On 1.4.10, it is agreed among the partners that AB (P) Ltd. a newly formed company with E and F having each taken up 300 shares of Rs. 10 each will take over the firm as a going concern including goodwill but excluding cash & bank balances. The following points are also agreed upon:

(a) Goodwill will be valued at 3 years purchase of super profits.

(b) The actual profit for the purpose of goodwill valuation will be Rs. 300,000.

(c) **Normal rate of return will be 15% on fixed capital.**

(d) **All other assets and liabilities will be taken over at book values.**

(e) **The purchase consideration will be payable partly in shares of Rs. 10 each and partly in cash. Payment in cash being to meet the requirement to discharge D, who has agreed to retire.**

(f) **E and F are to acquire equal interest in the new company.**

(g) **Expenses of liquidation Rs. 120,000.**

You are required to prepare the necessary Ledger Accounts.

Answer 9.

	Rs.
Capital employed on 31.3.10 (Fixed capital)	12,00,000
Calculation of Goodwill :	
Weighted average of actual profits	3,00,000
Less: Normal profits at 15% of Rs. 12,00,000	1,80,000
Super profits	1,20,000
Goodwill at 3 years' purchase, i.e. 120,000 × 3	3,60,000
Calculation of Purchase Consideration :	
Total assets as per Balance Sheet	19,80,000
Less: Cash & Bank balances	4,50,000
	15,30,000
Add: Goodwill	3,60,000
	18,90,000
Less: Unsecured loans	6,00,000
Purchase Consideration	12,90,000

Dr. **Realization Account** *Cr.*

	Rs.			**Rs.**
To Sundry Assets	15,30,000	By Unsecured loans		6,00,000
To Goodwill	3,60,000	By AB(P) Ltd.		12,90,000
To Bank : expenses	1,20,000	By Capital A/c:		
		D	60,000	
		E	30,000	
		F	30,000	1,20,000
	2010,000			**20,10,000**

Dr. **Partners' Capital Accounts** *Cr.*

	D Rs.	**E Rs.**	**F Rs.**		**D Rs.**	**E Rs.**	**F Rs.**
To Realisation	60,000	30,000	30,000	By Bal. c/d	6,00,000	3,00,000	3,00,000
To Cash	8,40,000	–	–	By Cur. A/c	1,20,000	60,000	
To C (Cap. adj)	–	30,000	–	By Goodwill	18,00,000	90,000	90,000
To Shares in AB (P) Ltd.)	–	3,90,000	3,90,000	By E (Cap. adj)	–	–	30,000
	9,00,000	4,50,000	4,20,000		9,00,000	4,50,000	420,000

Dr. **Cash & Bank Account** *Cr.*

	Rs.		**Rs.**
To Balance b/d	4,50,000	By Realisation A/c – expenses	1,20,000
To AB (P) Ltd. (Balancing Figure)	5,10,000	By A's Capital A/c	8,40,000
	9,60,000		**9,60,000**

Dr. **AB(P) Ltd. Account** *Cr.*

	Rs.		**Rs.**
To Realisation A/c	9,00,000	By Cash A/c	5,10,000
		By Equity Shares (Balancing Fig.) (39,000 shares of Rs. 10 each)	390,000
	900,000		**900,000**

Proportion of equity capital E:F = 1:1

No. of shares = $\frac{39,000}{2} = 19,500$ shares each.

Q. 10. From the following information, prepare —

(a) Reconciliation of Head Office Account in Branch Books and of the Branch Account in the Head Office Books; and

(b) The Trading and Profit & Loss Account of the Head Office — for the year ended 31st March, 2010.

	Head Office Rs.	**Branch Rs.**
Opening Stock	**10,000**	**4,500**
Purchases	**1,15,000**	**—**
Sales	**2,05,000**	**1,55,000**
Other Expenses	**15,200**	**6,200**
Closing Stock	**5,200**	**3,100**

The Branch books show the Head Office Account at Rs. 9,000 (Cr.) and the Head Office books show the Branch Account at Rs. 24,000 (Dr.). The Branch receives all its supplies from the Head Office, which are invoiced at 25% over cost. During the year, the Head Office sent invoices to the Branch to the tune of Rs. 1,04,500. The Head Office credits its Sales Account with the invoice price of the goods sent to the Branch.

The Head Office billed the Branch for Rs. 12,000 on 31st March 2010 representing the Branch's share of the expenses incurred by the Head Office. The said expenses had not been recorded in the books of the Branch.

The expenses of the Branch are met by the Head Office from time to time for which amounts are sent in advance to the Branch. A sum of Rs. 3,000 sent to the Branch by the Head Office on 29th March, 2010 in this connection, was received by the Branch on 3rd April, 2010.

Answer 10.

Dr. **Reconciliation Account of the Branch (*Memorandum*) (in H.O. Books)** *Cr.*

	Rs.		Rs.
To Balance b/d (as per H.O. books)	24,000	By Remittance in Transit Transit to Branch	3,000
		By H.O. Expenses (Entry not yet made in Branch Books)	12,000
		By Balance (as per Br. Books)	9,000
	24,000		24,000

Dr. **Memorandum Reconciliation Account of H.O. Accounts (in Branch Books)** *Cr.*

	Rs.		Rs.
To Balance (as per H.O. Books)	24,000	By Balance b/d (as per Br. Books)	9,000
		By Expenses	12,000
		By H.O. Cash in transit	3,000
	24,000		24,000

Dr. **Trading and Profit and Loss Account for the year ended 31.3.2010** *Cr.*

	H.O. Rs.	Branch Rs.	Total Rs.		H.O. Rs.	Branch Rs.	Total Rs.
To Opening Stock	10,000	4,500	14,500	By Sales	1,00,500	1,55,000	2,55,000
				By Goods sent to Branch	1,04,500	—	1,04,500
To Purchase H.O.	1,15,000	—	1,15,000				
To Goods from H.O.	—	1,04,500	1,04,500	By Closing Stock	5,200	3,100	8,300
Profit	85,200	49,100	1,34,300				
	2,10,200	1,58,100	3,68,300		2,10,200	1,58,100	3,68,300
To Expenses	15,200	6,200	21,400	By Gross Profit	85,200	49,100	1,34,300
To H.O. Exp.	—	12,000	12,000	By Opening Stock (Reserve) (4500×1/5)	900	—	900
To Stock reserve req. (3100×1/5)	620	—	620				
To Net Profit	70,280	30,900	1,01,180				
	86,100	49,100	1,35,200		86,100	49,100	1,35,200

Note : It is assumed that branch profit is to be ascertained on the basis of invoice value of the goods sent to the Branch since H.O. Sales A/c is credited by such a figure. Entries for Stock Reserve in respect of unrealised profit on stock still lying with the Branch, are therefore made in the H.O. books.

Q. 11. An Indian company has a branch at New York. Its Trial Balance as at 31st March, 2010 is as follows :

	Dr. US $	Cr. US $
Plant and machinery	180000	–
Furniture and fixtures	12,000	–
Stock, Oct. 1, 2009	84,000	–
Purchases	360,000	–
Sales	–	624,000
Goods from Indian Co. (H.O.)	120,000	–
Wages	3000	–
Carriage inward	1500	–
Salaries	9,000	–
Rent, rates and taxes	3000	–
Insurance	1500	–
Trade expenses	1500	–
Head Office A/c		171,000
Trade debtors	36,000	–
Trade creditors	–	25500
Cash at bank	7500	–
Cash in hand	1500	–
	820500	820500

The following further information is given :

(1) Wages outstanding – $ 1500

(2) Depreciate Plant and Machinery and Furniture and Fixtures @ 10 % p.a.

(3) The Head Office sent goods to Branch for Rs. 5910000

(4) The Head Office shows an amount of Rs. 6450,000 due from Branch.

(5) Stock on 31st March, 2010 – $ 78,000.

(6) There were no in transit items either at the start or at the end of the year.

(7) On March 1, 2008, when the fixed assets were purchased, the rate of exchange was Rs. 44 to 1 $.
On April 1, 2009, the rate was Rs. 45 to 1 $.
On March 31, 2010, the rate was Rs. 46 to 1 $.
Average rate during the year was Rs. 45 to 1 $.

You are asked to prepare :

(a) Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees.

(b) Trading and Profit and Loss Account for the year ended 31st March, 2010 and Balance Sheet as on that date depicting the profitability and net position of the Branch as would appear in India for the purpose of incorporating in the main Balance Sheet.

Answer 11.

(a)

In the books of the Indian Company
New York Branch Trial Balance (in Rupees)
as on 31st March, 2010

(Rs. '000)

	Dr. US $	Cr. US $	Conversion rate	Dr. Rs.	Cr. Rs.
Plant and Machinery	1,62,000		46	74,52,000	
Depreciation on plant and machinery	18,000		46	8,28,000	
Furniture and fixtures	10,800		46	4,96,800	
Depreciation on furniture and fixtures	1200		46	55,200	
Stock, Oct. 1, 2009	84,000		45	37,80,000	
Purchases	360,000		45	1,62,00,000	
Sales		624,000	45		2,80,80,000
Goods from Indian Co. (H.O.)	1,20,000			59,10,000	
Wages	4,500		45	2,02,500	
Outstanding wages	1,500		46		69,000
Carriage inward	1,500		45	67,500	
Salaries	9,000		45	4,05,000	
Rent, rates and taxes	3,000		45	1,35,000	
Insurance	1,500		45	67,500	
Trade expenses	1,500		45	67,500	
Head Office A/c		1,71,000			64,50,000
Trade debtors	36,000		46	16,56,000	
Trade creditors	25,500		46		11,73,000
Cash at bank	7,500		46	3,45,000	
Cash in hand	1,500		46	69,000	
Exchange gain					19,65,000
(balancing figure)				3,77,37,000	3,77,37,000

(b) New York Branch Trading and Profit and Loss Account for the year ended 31st March, 2010

Dr. *Cr.*

	Rs.		Rs.
To Opening stock	37,80,000	By Sales	2,80,80,000
To Purchases	1,62,00,000	By Closing stock	35,88,000
To Goods from Head Office	59,10,000	(78,000 US $ × 46)	
To Wages	2,02,500		
To Carriage inward	67,500		
To Gross profit c/d	55,08,000		
	3,16,68,000		3,16,68,000
To Salaries	4,05,000	By Gross profit b/d	55,08,000
To Rent, rates and taxes	1,35,000		
To Insurance	67,500		
To Trade expenses	67,500		
To Depreciation on plant and machinery	8,28,000		
To Depreciation on furniture and fixtures	55,200		
To Net Profit c/d	39,49,800		
	55,08,000		55,08,000

Balance Sheet of New York Branch as on 31st March, 2010

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Head Office A/c	64,50,000		Plant and machinery	82,80,000	
Add : Net profit	39,49,800	1,03,99,800	*Less* : Depreciation	8,28,000	74,52,000
Foreign currency			Furniture and fixtures	5,52,000	
Translation reserve		19,65,000	*Less* : Depreciation	55,200	4,96,800
Trade creditors		11,73,000	Closing stock		35,88,000
Outstanding wages		69,000	Trade debtors		16,56,000
			Cash in hand		3,45,000
			Cash at bank		69,000
		1,36,06,800			1,36,06,800

Note : (1) Depreciation has been calculated at the given depreciation rate of 10% on WDV basis.

(2) The above solution has been given assuming that the New York branch is a non-integral foreign operation of the Indian Company.

Q. 12. Department A sells goods to Department B at a profit of 25% on cost and to Department C at 10% profit on cost. Department B sells goods to A and C at a profit of 15% and 20% on sales, respectively. Department C charges 20% and 25% profit on cost to Department A and B, respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

	Rs.
Department A	**72,000**
Department B	**54,000**
Department C	**36,000**

Stock lying at different departments at the end of the year are as under :

	Dept. A Rs.	Dept. B Rs.	Dept. C Rs.
Transfer from Department A	—	**30,000**	**22,000**
Transfer from Department B	**28,000**	—	**24,000**
Transfer from Department C	**12,000**	**10,000**	—

Find out the correct departmental Profits after charging Managers' commission.

Answer 12.

Calculation of correct Profit

	Department A Rs.	Department B Rs.	Department C Rs.
Profit after charging managers' commission	72,000	54,000	36,000
Add back : Managers' commission (1/9)	8,000	6,000	4,000
	80,000	60,000	40,000
Less : Unrealized profit on stock (Working Note)	8,000	9,000	4,000
Profit before Manager's commission	72,000	51000	36,000
Less : Commission for Department Manager @10%	7,200	5,100	3,600
	64,800	45,900	32,400

Working Note :

Unrealised Profit on Stock

	Dept. A Rs.	Dept. B Rs.	Dept. C Rs.	Total Rs.
Department A		$\frac{1}{5}\times 30{,}000 = 6{,}000$	$\frac{1}{11}\times 22{,}000 = 2{,}000$	8,000
Department B	$\frac{15}{100}\times 28{,}000 = 4{,}200$		$\frac{20}{100}\times 24000 = 4800$	9,000
Department C	$\frac{1}{6}\times 12{,}000 = 2{,}000$	$\frac{1}{5}\times 10{,}000 = 2{,}000$		4000

Q. 13. (a) Briefly indicate the items, which are included in the expression "borrowing cost" as explained in AS 16.

Answer 13. (a)

Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

As per Para 4 of AS 16 on Borrowing Costs, borrowing costs may include :

(i) interest and commitment charges on bank borrowings and other short-term and long-term borrowings;

(ii) amortization of discounts or premiums relating to borrowings ;

(iii) amortization of ancillary costs incurred in connection with the arrangement of borrowings;

(iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements; and

(v) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Q. 13. (b) Write short note on Effect of Uncertainties on Revenue Recognition.

Answer 13. (b)

Para 9 of AS 9 on "Revenue Recognition" deals with the effect of uncertainties on Revenue Recognition. The Para states :

1. Recognition of revenue requires that revenue is measurable and at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection.
2. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc. revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize, revenue only when it is reasonably certain that the ultimate collection will be made. When there is uncertainty as to ultimate collection, revenue is recognized at the, time of sale or rendering of service even, though payments are made by installments.
3. When the uncertainty relating to collectability arises subsequent to the time of sale or rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.
4. An essential criterion for the recognition of revenue is that the consideration receivable for the sale of goods, the rendering of services or from the use by others of enterprise resources is reasonably determinable. When such consideration is not determinable within reasonable limits; the recognition of revenue is postponed.
5. When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is properly recognized.

Q. 14. (a) How should rentals repayable under operating leases be accounted for in accordance with AS 19?

(b) State four items which are not to be included in determining the cost of inventories in accordance with paragraph 6 of AS 2?

(c) When are parties considered 'Related' as per AS 18?

Answer 14. (a)

According to AS 19, rental payable under an operation lease should be charged against revenue on a straight line basis to over the lease period. If any other method is more representative of the time pattern of the user's benefit, such method can be used.

Answer 14. (b)

In determining the cost of inventories in accordance with paragraph 6 of AS 2, it is appropriate to exclude certain costs and recognize therein as expenses in the period in which they are incurred. Examples of such cost are —

(i) abnormal amounts of waste materials, labour or other production costs,

(ii) storage costs unless those costs are necessary in the production process prior to a further production stage,

(iii) administrative overheads that do not contribute to bring the inventories to their present location and condition, and

(iv) selling and distribution cost.

Answer 14. (c)

Parties are considered 'Related' if at any time during the reporting period one party has ability :

(i) to control the other party,

(ii) to exercise significant influence over the other party in making financial and /or operating decisions, then by virtue of AS 18 both parties would be considered related.

Here the term control means :

(i) ownership directly or indirectly, of more than 50% of the voting power of an enterprise,

(ii) the composition of the board of directors (company) or the Governing Body (other enterprise)

(iii) a substantial interest in voting power and the power to direct by Statute or by agreement, the financial/operating policies of the enterprise (20% or more interest in voting power)

Significant influence :

(i) refers to participation in the financial and/or operating policy decisions of an enterprise but not control of those policies,

(ii) may be gained by ownership in share (including investment through intermediaries restricted to mean subsidiaries as defined in AS-21 Consolidated Financial Statement).

Q. 15. How would you deal with the following in the annual accounts of a company for the year ended-31st March, 2009?

(a) The Board of Directors decided on 31.3.2009 to increase the sale price of certain items retrospectively from 1st January, 2009.

In view of this price revision with effect from 1st January, 2009 the company has to receive Rs. 20 lacs from its customers in respect of sales made from 1st January, 2009to 31st March, 2009 and the Accountant cannot make up his mind whether to include Rs. 20 lacs in the sales for 2009-10.

Answer 15. (a)

Price revision was effected during the current accounting period 2008-2009. As a result, the company stands to receive Rs. 20 lacs from its customers in respect of sales made from 1st January, 2009 to 31st March, 2009. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognized in 2008-2009 vide Para 10 of AS 9.

Q. 15. (b) The company undertook a contract for building a crane for Rs. 15 lacs. As on 31.03.09 it incurred a cost of Rs. 2.25 lacs and expects that there will be Rs. 13.5 lacs more for completing the crane. It has received so far Rs. 1.5 lacs as progress payment.

Answer 15. (b)

Para 21 of AS 7 (Revised) 'Construction Contracts' provides that when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively with reference to the stage of completion of the contract activity at the reporting date.

As per para 32 of the standard, during the early stages of a contact it is often the case that the outcome of the contract cannot be estimated reliably. Nevertheless, it may be probable that the enterprise will recover the contract costs incurred. Therefore, contract revenue is recognized only to the extent of costs incurred that are expected to be recovered. As the outcome of the contract cannot be estimated reliably, no profit is recognized. Para 35 of the standard states that when it is probable that the total contacts costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately. Thus the foreseeable loss of Rs. 75000 (expected cost Rs. 15.75 lacs less contract revenue Rs. 15 lacs should be recognized as an expense in the year ended 31st March, 2009.

Also, the following disclosures should be given in the financial statements :

(i) the amount of contract revenue recognized as revenue in the period;

(ii) the aggregate amount of costs incurred and loss recognized up to the reporting date;

(iii) amount of advances received;

(iv) amount of retentions; and

(v) gross amount due from/due to customers Amount.

Q. 15. (c) P Ltd., used certain resources of Q Co. Ltd. In return Q Ltd. received Rs. 30 lacs and Rs. 45 lacs as interest and royalties respective from Y Co. Ltd. during the year 2008-2009.

You are required to state whether and on what basis these revenues can be recognized by Q Ltd.

Answer 15. (c)

As per para 13 of AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognized when no significant uncertainty as to measurability or collectability exists. These revenues are recognized on the following bases :

(i) **Interest :** on a time proportion basis taking into account the amount outstanding and the rate applicable.

(ii) **Royalties :** on an accrual basis in accordance with the terms of the relevant agreement.

Q. 16. (a) What is meant by Sweat Equity Shares?

(b) State the cases where the creation of Debenture Redemption Reserve is not mandatory as per SEBI guidelines.

(c) State the conditions which are required to be fulfilled by a Joint Stock Company to buy-back its equity shares.

Answer 16. (a)

The Companies (Amendment) Act, 1999 introduced through section 79A a new type of equity shares called 'Sweat Equity Shares. The expression 'sweat equity shares' means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions by whatever name called. However , specified guidelines in this respect must be followed.

Answer 16. (b)

The following are the cases where Debenture Redemption Reserve is not mandatory as per SEBI guidelines :

(i) Infrastructure Company.

(ii) A company issuing debenture with a maturity period of not more than 18 months.

Answer 16. (c)

As per section 77A(2) of the Companies Act, 1956 a joint stock company has to fulfill the following conditions to buy-back its own equity shares :

(i) The buy-back is authorized by its articles.

(ii) A special resolution* has been passed in general meeting of the company authorizing the buy-back.

(iii) The buy-back does not exceed 25% of the total paid up capital and free reserves of the company. Provided the buy–back must not exceed 25% of its total paid up equity capital in that financial year.

(iv) The ratio of the debt owed by the company is not more than twice the capital and its free reserves after such buy-back.

(v) All the shares for buy-back are fully paid up.

(vi) The buy-back is made out of the free reserves (which include securities premium) or out of the proceeds of a fresh issue of any shares or other specified securities.

(vii) The buy-back is completed within 12 months of the passing of the special resolution or a resolution passed by the Board.

(viii) The buy-back of the shares listed on any recognized stock exchange is in accordance with the regulations made by the SEBI in this behalf.

(ix) Before making such buy-back, a listed company has to file with the Registrar and the SEBI a declaration of solvency in the prescribed form.

Q. 17. The Balance sheet of WYX Ltd. as at 31st December, 2008 inter alia includes the following :

		Rs.
75000,	**8% Preference shares of Rs. 100 each Rs. 70 paid up**	**52,50,000**
150000	**Equity shares of Rs. 100 each fully paid up**	**1,50,00,000**
	Securities premium	**7,50,000**
	Capital redemption reserve	**30,00,000**
	General reserve	**75,00,000**

Under the terms of their issue, the preference shares are redeemable on March 31, 2009 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 75000 equity shares of Rs. 100 each at Rs. 20 being payable on application, Rs. 35 (including premium) on allotment and the balance on January 1, 2010 The issue was fully subscribed and allotment made on March 1, 2009. The monies due on allotment were received by March 30, 2009.

The preference shares were redeemed after fulfilling the necessary conditions of Section 80 of the Companies Act, 1956. The company decided to make the minimum utilization of general reserve.

You are asked to pass the necessary journal entries and show the relevant extracts from the Balance Sheet as on March 31, 2009 with the corresponding figures as on 31st December, 2008.

Note : Party paid up Preference Share cannot be redeemed. Hence, the company share call the amount due from the Preference Shares.

Answer 17.

WYX Ltd.

Journal Entries

		Dr. Rs. '000	Cr. Rs. '000
8% Preference Share Final Call Account	Dr.	2250	
To 8% Preference Share Capital Account			2250
(Being the final call made on 75000 preference shares @ Rs. 30 each to make them fully paid up)			
Bank Account	Dr.	2250	
To 8% Preference Share Final Call Account			2250
(Being the final call amount received on 75000 preference shares @ Rs. 30 each)			
Bank Account	Dr.	1500	
To Equity Share Application Account			1500
(Being the application money received on 75000 equity shares @ Rs. 20 per share)			
Equity Share Application Account	Dr.	1500	
To Equity Share Capital Account			1500
(Being the application money on 75000 equity shares transferred to equity share capital account vide Board's resolution dated...)			
Equity Share Allotment Account	Dr.	2625	
To Equity Share Capital Account			1875
To Securities Premium Account			750
(Being the amount due on 75000 equity shares @ Rs. 35 per share [including premium Rs.10 vide Board's resolution dated...)			
Bank Account	Dr.	2625	
To Equity Share Allotment Account			2625
(Being the allotment money received on 75000 equity shares @ Rs. 35 per share)			
8% Preference Share Capital Account	Dr.	7500	
Premium on Redemption of Preference Shares Account	Dr.	375	
To Preference Shareholders Account			7875
(Being the amount payable to preference share holders on redemption)			

Preference Shareholders Account	Dr.	7875	
To Bank Account			7875
(Being the payment made to preference shareholders)			
Securities Premium Account	Dr.	375	
To Premium on Redemption of Preference Shares Account			375
(Being the premium payable on redemption of preference shares charged to share premium account)			
General Reserve	Dr.	4125	
To Capital Redemption Reserve			4125
(Being the amount transferred to capital redemption reserve on redemption of preference shares for the balance not covered by proceeds of fresh issue of shares)			

Balance Sheet of WYX Limited
As at 31st March, 2009 (after redemption of preference shares)
(Relevant extracts)

	Amount Rs. ('000) As on 31.3.09	Amount Rs. ('000) As on 31.12.08
1. Sources of funds		
Shareholders' funds :		
(a) Share Capital		
Issued, subscribed and paid-up		
1,50,000 equity shares of Rs. 100 each, fully paid up	15,000	15,000
75000 equity shares of Rs. 100 each,		
Rs. 45 called up and paid up	3,375	—
75000, 8% Redeemable preference shares of		
Rs. 100 each, Rs. 70 called-up and paid-up		
(redeemed on 31st March, 2009)	—	5,250
	18,375	20,250
(b) Reserves and Surplus :		
Capital redemption reserve	7,125	3,000
Securities premium account	1,125	750
General reserve	3,375	7,500
	11,625	11,250

The cash and bank balance will be decreased by Rs. 15,00,000 on 31.3.09 as compared to the balance on 31.12.2008.

Working Notes :

		Rs. '000
(i)	Transfer to capital redemption reserve	
	Nominal value of preference shares redeemed (Rs. 100 × 75,000)	7,500
	Less : Proceeds of fresh equity issue [(Rs. 20 + 25) × 75,000)]	3,375
	Transfer to capital redemption reserve	4,125
(ii)	Capital redemption reserve as on 31.3.09	
	Balance as on 31.12.08	3,000
	Add : Transfer from general reserve	4,125
	Balance as on 31.3.09	7,125
(iii)	General reserve as on 31.3.09	
	Balance as on 31.12.08	7,500
	Less : Transfer to capital redemption reserve	4,125
	Balance as on 31.3.09	3,375
(iv)	Securities premium as on 31.3.09	
	Balance as on 31.12.08	750
	Add : Amount received @ Rs. 10 per share on fresh issue of 75,000 equity shares	750
		1,500
	Less : Premium on redemption of preference shares	375
	Balance as on 31.3.09	1,125
(v)	Change in cash and bank balance	
	Receipts : (31.12.08 - 31.3.09)	
	Application money on 75,000 equity shares @ Rs. 20 per share	1,500
	Allotment money on 75,000 equity shares @ Rs. 35 per share	2,625
	Final call on 75,000, 8% Preference shares @ Rs. 30 per share	2,250
		6,375
	Payments :	
	Amount paid to preference shareholders on redemption	7,875
	Reduction in cash and bank balance	1,500

Q. 18. ABC Limited recently made a public issue in respect of which the following information is available :

(a) No. of partly convertible debentures issued 4,00,000; face value and issue price Rs.100 per debenture.

(b) Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.

(c) Date of closure of subscription lists 1.5.2009, date of allotment 1.6.2009, rate of interest on debenture 15% payable from the date of allotment, value of equity share for the purpose of conversion Rs. 60 (Face Value Rs. 10).

(d) Underwriting Commission 2.5 %.

(e) No. of debentures applied for 300000.

(f) 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 31st March, 2010 (including cash and bank entries).

Answer 18.

In the books of ABC Ltd.

Journal Entries

Date	Particulars		Dr. Amount Rs.	Cr. Amount Rs.
1.5.09	Bank A/c	Dr.	3,00,00,000	
	To Debenture Application A/c			3,00,00,000
	(Application money received on 300,000 debentures @ Rs. 100 each)			
1.6.09	Debenture Application A/c	Dr.	3,00,00,000	
	Underwriters A/c	Dr.	1,00,00,000	
	To 15% Debentures A/c			4,00,00,000
	(Allotment of 300,000 debentures to applicants and 100,000 debentures to underwriters)			
	Underwriting Commission	Dr.	10,00,000	
	To Underwriters A/c			10,00,000
	(Commission payable to underwriters @ 2.5 % on Rs. 4,00,00,000)			
	Bank A/c	Dr.	99,00,000	
	To Underwriters A/c			99,00,000
	(Amount received from underwriters in settlement of account)			
30.9.09	Debenture Interest A/c	Dr.	20,00,000	
	To Bank A/c			20,00,000
	(Interest paid on debentures for 4 months @ 15% on Rs. 400,00,000)			
30.10.09	15% Debentures A/c	Dr.	2,40,00,000	
	To Equity Share Capital A/c			40,00,000
	To Securities Premium A/c			2,00,00,0000
	(Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)			
31.3.10	Debenture Interest A/c	Dr.	15,00,000	
	To Bank A/c			15,00,000
	(Interest paid on debentures for the half year)			

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 2010

On Rs. 1,60,00,000 for 6 months @ 15% = Rs. 12,00,000

On Rs. 2,40,00,000 for 1 months @ 15% = Rs. 300,000

Rs. 15,00,000

Q. 19. Provisional Balance Sheet of STP Ltd. as at 31st March, 2009 was as under :

Balance Sheet as at 31st March, 2009

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*
Share Capital			Fixed Assets (at cost less	
125,000 equity shares of Rs. 10			depreciation)	1750,000
each, Rs. 7 per share called up	875000		Cash & Bank balances	5,00,000
Less : Calls in arrear on 25,000			Other Current assets	1500,000
shares @ Rs. 2 per share	50,000			
	825,000			
Add : Calls in advance on 100,000 shares @ Rs. 3 per share	300,000	1125,000		
20,000, 10% Redeemable preference				
shares of Rs. 10 each, fully paid up		5,00,000		
Reserves & Surplus :				
General Reserve		750,000		
Profit & Loss Account		675,000		
Current Liabilities		700,000		
		3750000		3750,000

Calls in arrear are outstanding for 6 months. Calls in advance were also received 6 months back.
Interest @ 10% p.a. on calls in advance and 12% p.a. on calls in arrear are allowed/charged.
The Board of Directors have recommended that :

(i) Dividend for the year 2008-09 be allowed @ 20% on equity shares.

(ii) Money on calls in advance be refunded and partly paid equity shares be converted as fully paid up by declaring bonus dividend to shareholders.

(iii) The preference shares, which are redeemable at a premium of 10% any time after 31st March, 2009 may be redeemed by issue of 10% Debentures of Rs. 100 in cash.

Show Journal Entries to give effect to the above proposals including payment and receipt of cash and redraft the Profit and Loss Account and Balance Sheet of STP Ltd.

Answer 19.

Journal Entries
STP Ltd.

		Dr. Rs.	Cr. Rs.
Interest on Calls in Arrear A/c	Dr.	3000	
To Profit & Loss A/c			3000
(Being interest @ 12 % p.a. on Rs. 50,000 for 6 months credited to Profit and Loss Account)			
Bank A/c	Dr.	53000	
To Calls in Arrear A/c			50000
To Interest on Calls in Arrear A/c			3000
(Being interest on calls in arrear received)			
Profit & Loss A/c	Dr.	15000	
To Interest on Calls in Advance A/c			15000
(Being interest @ 10% on Rs. 3,00,000 for 6 months allowed on calls in advance)			
Profit & Loss A/c	Dr.	225000	
To Preference Dividend			50000
To Equity Dividend			175000
(Being dividend @ 10% on Preference share capital & 20% on Equity share capital proposed)			
Profit & Loss A/c	Dr.	375000	
To Bonus to Equity Shareholders A/c			375000
(Being bonus dividend declared)			
Share Final Call A/c	Dr.	375000	
To Equity Share Capital A/c			375000
(Being final call made @ Rs. 3 on 1,25,000 shares)			
Bonus to Equity shareholders A/c	Dr.	375000	
To Share Final Call A/c			375000
(Being adjustment of bonus dividend against final call)			
Calls in Advance A/c	Dr.	300000	
Interest on Calls in Advance A/c	Dr.	15000	
To Bank A/c			315000
(Being amount of calls in advance along with interest refunded)			
Bank A/c	Dr.	550000	
To 10% Debentures A/c			550000
(Being 5,500 Debentures of Rs.100 each issued in cash)			

Profit & Loss A/c	Dr.	50000	
To Premium on Redemption of Preference shares A/c			50000
(Being premium payable on redemption)			
Profit & Loss A/c	Dr.	13000	
General Reserve A/c	Dr.	487000	
To Capital Redemption Reserve A/c			500000
(Transfer to capital redemption reserve)			
Preference Share Capital A/c	Dr.	500000	
Premium on Redemption of Preference Shares A/c	Dr.	50,000	
To Preference Shareholders A/c			550000
(Amount due on redemption of preference shares)			
Preference Shareholders A/c	Dr.	550000	
To Bank A/c			550000
(Amount paid to preference shareholders)			

Profit & Loss Account of STP Ltd.
for the year ended 31st March, 2009

Dr. *Cr.*

	Rs.		Rs.
To Interest on calls in advance	15,000	By Balance b/d	6,75,000
To Balance c/d	6,63,000	By Interest on calls in arrear	3,000
	6,78,000		6,78,000
To Premium on redemption	50,000	By Balance b/d	6,63,000
To Preference Dividend	50,000		
To Equity Dividend	1,75,000		
To Bonus Dividend	3,75,000		
To Capital Redemption Reserve	13,000		
	6,63,000		6,63,000

Balance Sheet of STP Ltd.
as on 31st March 2009

Liabilities		Rs.	Assets	Rs.
Share Capital:			Fixed Assets	17,50,000
125,000 equity shares of Rs. 10 each			(Cost less depreciation)	
fully paid up		12,50,000		
(Of the above equity shares			Cash & Bank balance (W.N.)	2,38,000
Rs. 3 per share has not been received				
in cash but has been capitalised			Other Current Assets	15,00,000
by issuing bonus dividend)				
Reserves & Surplus :				
Capital Redemption Reserve		5,00,000		
General Reserve	7,50,000			
Less: utilised for redemption				
of preference share	4,87,000	2,63,000		
Profit & Loss Account		—		
10% Debentures		5,50,000		
Current liabilities		7,00,000		
Proposed dividend		2,25,000		
		34,88,000		**34,88,000**

Working Note :

Cash and Bank balance as on 31st March, 2009

		Rs.
Cash and bank balance (given)		5,00,000
Add:	Recovery of calls in arrear and interest thereon	53,000
	Proceeds from issue of 10% Debentures	5,50,000
		11,03,000
Less:	Payment of calls in advance and interest thereon	3,15,000
	Redemption of preference shares	5,50,000
		2,38,000

Note : In the absence of information, it has been assumed that the amount of calls in arrear has been received in the given solution. It has been assumed that 20% dividend on equity shares has been proposed before the equity shares are made fully paid by way of bonus dividend.

Q. 20. The following is the Balance sheet of SS Ltd. as on 31.03.2009.

Liabilities	***Rs.***	***Assets***	***Rs.***	
Share Capital :		***Fixed Assets :***		
Authorised		**Gross Block**	**6,00,000**	
20,000 10% redeemable preference		***Less* : Depreciation**	**2,00,000**	**4,00,000**
share of Rs. 10 each	**2,00,000**	**Investments**		**2,00,000**
1,80,000 Equity Shares of Rs. 10 each	**18,00,000**	***Current Assets,***		
	20,00,000	***Loans & Advances :***		
Issued, Subscribed and paid up		**Inventory**	**50,000**	
capital :		**Debtors**	**50,000**	
20,000, 10% redeemable		**Cash & Bank balance**	**1,00,000**	**2,00,000**
preference share of Rs. 10 each	**2,00,000**	***Miscellaneous Expenditure***		
20,000 equity shares of Rs. 10 each	**2,00,000**	**to the extent not written off**		**40,000**
Reserve and Surplus :				
General Reserve	**2,40,000**			
Securities premium	**1,40,000**			
Profit and Loss Account	**37,000**			
Current Liabilities & Provision :	**23,000**			
	8,40,000			**8,40,000**

For the year ended 31.3.2010, the company made a net profit of Rs. 30,000 after providing for Rs. 40,000 depreciation and writing off miscellaneous expenditure of Rs. 40,000. The following additional information is available with regard to company's operation.

(1) The preference dividend for the year ended 31.3.2010 was paid before 31.3.2010.

(2) Except cash & balances, other current assets and current liabilities on 31.3.2010, was the same as on 31.3.2009.

(3) The company redeemed the preference share at a premium of 10%.

(4) The company issued bonus shares in the ratio of 1 share for every two equity shares held as on 31.3.2010.

(5) To meet the cash requirements of redemption, the company sold a portion of the investments, so as to leave a minimum balance of Rs. 60,000 after such redemption.

(6) Investments were sold at 90% cost as on 31.3.2010.

Prepare :

(i) Necessary Journal entries to record redemption and issue of shares.

(ii) Cash & Bank Account.

(iii) Balance Sheet as on 31.3.2010.

Answer 20.

Journal Entries

Date	Particulars		Amount Rs.	Amount Rs.
	Bank A/c	Dr.	90,000	
	Profit & Loss A/c	Dr.	10,000	
	To Investment A/c			1,00,000
	(Being the investment sold at 90% cost)			
	10% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
	Premium on redemption of Preference Share	Dr.	20,000	
	To Preference Shareholders A/c			2,20,000
	(Being the amount payment on redemption of preference share at a premium of 10%)			
	Preference Shareholders A/c	Dr.	2,20,000	
	To Bank A/c			2,20,000
	(Being the amount paid to preference shareholders)			
	General Reserve A/c	Dr.	1,00,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to capital redemption reserve A/c)			
	Securities Premium A/c	Dr.	20,000	
	To Premium on redemption of Preference Shares A/c			20,000
	(Being the premium on redemption of preference shares adjusted against Securities Premium A/c)			
	Capital Redemption Reserve A/c	Dr.	1,00,000	
	To Bonus to Shareholders A/c			1,00,000
	(Being the bonus payable to shareholders in the ratio of 2 :1)			
	Bonus to Shareholders A/c	Dr.	1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Being utilisation of bonus dividend towards the issue of 10,000 equity shares of Rs. 10 each at par)			

Dr. **Cash and Bank Account** *Cr.*

Particulars			Amount Rs.	Particulars	Amount Rs.
To Balance b/d			1,00,000	By Preference Dividend A/c	20,000
To Cash from operations				By Preference Shareholders A/c	2,20,000
	Net Profit	30,000		By Balance c/d	60,000
Add:	Depreciation	40,00			
	Mis. Expenditure	40,000	1,10,000		
To Investment A/c			90,000		
			3,00,000		**3,00,000**

Balance Sheet as on 31-03-2010

Liabilities	Amount Rs.	Assets		Amount Rs.
Share Capital :		**Fixed Assets :**		
Authorised Capital		Gross Block	6,00,000	
20,000 10% redeemable preference		*Less* : Depreciation	2,40,000	3,60,000
shares of Rs. 10 each	2,00,000	Investments (market value Rs. 90,000		1,00,000
1,80,000 Equity Shares of		**Current Assets,**		
Rs. 10 each	18,00,000	**Loans & Advances :**		
	20,00,000	Inventory	50,000	
Issued , Subscribed and		Debtors	50,000	
paid up capital :		Cash & Bank balances	60,000	1,60,000
30,000 equity shares of Rs. 10 each		**Miscellaneous Expenditure :**		Nil
fully paid including 10,000 bonus				
shares	3,00,00			
Reserve and Surplus :				
General Reserve (2,40,000 – 1,00,000)	1,40,000			
Securities premium (1,40,000–20,000)	1,20,000			
Profit and Loss Account	37,000			
Current Liabilities & Provisions :	23,000			
	6,20,000			**6,20,000**

Working Note :

Dr. **Profit and Loss A/c for the year ended on 31-03-2010** *Cr.*

Particulars	Amount Rs.	Particulars	Amount Rs.
To Preference Dividend A/c	20,000	By Balance b/d	37,000
To Investment (loss on sale)	10,000	By Net Profit	30,000
To Balance c/d	37,000		
	67,000		**67,000**

Q. 21. The Trial balance of CDX Ltd. as at 31st March, 2010 shows the following items :

	Dr. Rs.	Cr. Rs.
Advance payment of income-tax	**550000**	**—**
Provision for income-tax for the year ended 31.3.2009	**—**	**300000**

The following further information are given :

(i) Advance payment of income-tax includes Rs. 350000 for 2008-09.

(ii) Actual tax liability for 2008-09 amounts to Rs. 380000 and no effect for the same has so far been given in accounts.

(iii) Provision for income-tax has to be made for 2009-10 Rs. 400000

You are required to prepare (a) provision for income-tax account, (b) advance payment of income-tax account, (c) liabilities for taxation account and also show, how the relevant items will appear in the profit and loss account and balance sheet of the Company.

Answer 21.

CDX Ltd.

(a) **Provision for Income Tax (2008-09) Account**

Dr. *Cr.*

		Rs.			Rs.
31.3.08	To Advance Payment of Income-tax A/c	3,50,000	1.4.07	By Balance b/d	3,00,000
	To Liability for Taxation A/c	30,000	31.3.08	By Profit and Loss A/c	80,000
		3,80,000			**3,80,000**

Provision for Income-tax (2009-10) Account

		Rs.			Rs.
31.3.08	To Balance c/d	4,00,000	31.3.08	By Profit and Loss A/c	4,00,000
		4,00,000			**4,00,000**

(b) **Advance Payment of Income Tax Account**

		Rs.			Rs.
31.3.08	To Balance b/d	5,50,000	31.3.08	By Provision for Income-tax (2008-09) A/c	3,50,000
				By Balance c/d	2,00,000
		5,50,000			**5,50,000**

(c) **Liability for Taxation Account**

		Rs.			Rs.
31.3.08	To Balance c/d	30,000	31.3.08	By Provision for Income-tax A/c	30,000
		30,000			**30,000**

Profit and Loss Account
for the year ended 31st March, 2010 (Extracts)

		Rs.	Rs.
Profit before Taxation			.....
Less :	Taxation for the year	4,00,000	
	Taxation adjustment of previous year	80,000	4,80,000
Net Profit			.....

Balance Sheet of CDX Ltd.
As at 31st March, 2010 (Extracts)

Liabilities	Rs.	Assets	Rs.
Current Liabilities and Provisions		Current Assets, Loans and Advances	
A. Current Liabilities		B. Loans and Advances	
Liability for Taxation (2006-07)	30,000	Advance payment of	
B. Provisions		Income-tax	2,00,000
Provision for Income-tax	4,00,000		

Q. 22. The following is the Trial Balance of SBS Limited as on 31.3.10 :

(Figures in Rs. '000)

Debit	Rs.	Credit	Rs.
Land at cost	**385**	**Equity Capital (Shares of Rs. 10 each)**	**525**
Plant & Machinery at cost	**1347.5**	**10% Debentures**	**350**
Debtors	**168**	**General Reserve**	**227.5**
Stock (31.3.10)	**150.5**	**Profit & Loss A/c**	**126**
Bank	**35**	**Securities Premium**	**70**
Adjusted Purchases	**560**	**Sales**	**1225**
Factory Expenses	**105**	**Creditors**	**91**
Administration Expenses	**52.5**	**Provision for Depreciation**	**301**
Selling Expenses	**52.5**	**Suspense Account**	**7**
Debenture Interest	**35**		
Interim Dividend Paid	**31.5**		
	2922.5		**2922.5**

***Additional Information* :**

(a) On 31.3.10 the company issued bonus shares to the shareholders on 1 : 3 basis. No entry relating to this has yet been made.

(b) The authorized share capital of the company is 87500 shares of Rs. 10 each.

(c) The company on the advice of independent valuer wish to revalue the land at Rs.630000

(d) Proposed final dividend 10%.

(e) Suspense account of Rs. 7000 represents cash received for the sale of some of the machinery on 1.4.09 The cost of the machinery was Rs. 17500 and the accumulated depreciation thereon being Rs. 14000

(f) Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare SBS Limited's Profit & Loss account for the year ended 31.3.10 and a balance sheet on that date in vertical form as per the provisions of Schedule VI of the Companies Act, 1956.

Your answer to include detailed schedules only for the following :

(1) Share Capital

(2) Reserves & Surplus

(3) Fixed Assets

Ignore previous years' figures & taxation.

Answer 22.

SBS Limited
Balance Sheet as at 31.3.10

	Schedule No.			(Rs. '000)
I. **Sources of funds**				
(1) **Shareholders funds :**				
(a) Capital	1	700		
(b) Reserves & Surplus	2	700		1400
(2) Loan funds				
10% Debentures				350
	Total			**1750**
II. **Application of funds :**				
(1) **Fixed Assets :**	3			
Land			630	
Gross Block (1347.5 – 17.5)		1330		
Less: Depreciation (301 + 133 - 14)		420	910	1540
(2) **Current assets :**				
Stock		150.5		
Debtors		168.0		
Cash		35.0	353.5	
Less: Current Liabilities:				
Creditors		91.0		
Proposed dividend		52.5	143.5	210
	Total			**1750**

SBS Limited

Profit & Loss Account for the year ended 31.3.10

			(Rs. '000)
Sales		1225.0	
Other income (profit on sale of machinery)		3.5	
Total income			1228.5
Less : Expenses:			
Purchases		560	
Factory expenses		105	
Administration expenses		52.5	
Selling expenses		52.5	
Depreciation		133	
Interest on Debentures		35	938
			290.5
Net Profit before dividend			
Dividend : Interim	31.5		
Final	52.5		84.0
Balance carried to balance sheet			206.5

Working Notes :

Bonus issue proportion = 1:3

No. of shares = 52500 × 1/3 = 17500 shares

		Debit (Rs.)	Credit (Rs.)
(1)	General Reserve Account Dr.	1,75,000	
	To Equity Share Capital Account		Rs. 1,75,000
	(Being reserves capitalized)		
(2)	Land Account Dr.	2,45,000	
	To Revaluation Reserve Account		Rs. 2,45,000
	(Being land revalued)		

Schedules

	Rs.
SCHEDULE 1	
Share Capital	
Authorised	
87500 Shares of Rs. 10 each	8,75,000
Issued, subscribed & fully paid-up	
70000 shares of Rs. 10 each	7,00,000
[of the above, 17500 shares are alloted as fully paid by way of Bonus Shares. Bonus Shares were issued by utilising the general reserve]	

SCHEDULE 2

Reserves and Surplus

	Rs.
Share Premium Account	70,000
Revaluation reserve	2,45,000
General reserve (2,27,500 – 1,75,000)	52,500
Balance in profit & loss A/c (1,26,000 + 2,06,500)	3,32,500
	7,00,000

SCHEDULE 3

Fixed Assets	As on 1/4/2009 Rs.	Additions Rs.	Deductions Rs.	Depreciation Rs.	Net Block Rs.
Land	3,85,000	2,45,000	–	–	6,30,000
Plant & Machinery	13,47,500	–	17,500	4,20,000	9,10,000
Total	**17,32,500**	**2,45,000**	**17,500**	**4,20,000**	**15,40,000**

Land was revalued upward by Rs. 2,45,000 during the year.

Q. 23. (a) State the respective heads of the following items in Balance Sheet of a Company :

(i) Uncalled liability on share partly paid.
(ii) Loose tools.
(iii) Future installments payable under hire- purchase agreements.
(iv) Unclaimed dividends.
(v) Public deposit
(vi) Discount on issue of shares.
(vii) Proposed dividend.
(viii) Share premium account.
(ix) Interest accrued but not due on loans
(x) Immovable properties.

Answer 23. (a)

Item	Heading	Sub-heading
(i) Uncalled liability on share partly paid.	Contingent liability, shown as a footnote to Balance Sheet.	
(ii) Loose tools.	Current Assets, Loans and Advances	Current Assets
(iii) Future installments payable under hire-purchase agreements.	Secured Loans	
(iv) Unclaimed dividends.	Current Liabilities	
(v) Public deposit	Unsecured Loans	
(vi) Discount on issue of shares.	Miscellaneous Expenditure	
(vii) Proposed dividend.	Current Liabilities and Provisions	Provisions

Item	Heading	Sub-heading
(viii) Share premium account.	Reserves and Surplus	Reserves
(ix) Interest accrued but not due on loans	Current Liabilities and Provisions	Current Liabilities
(x) Immovable properties.	Investments	

Q. 23. (b)

(i) A major fire has damaged the assets in a factory of a limited company on 4th April-four days after the year end closure of account. The loss is estimated at Rs. 55 crores out of which Rs. 16 crores will be recoverable from the insurers. Explain briefly how the loss should be treated in the final accounts for the previous year.

(ii) There is a sales tax demand of Rs. 3.50 crores against a company relating to prior years against which the company has gone on appeal to the appellate authority in the department. The grounds of appeal deal with points covering Rs. 3 crores of the demand. State how the matter will have to be dealt with in the final accounts for the year.

Answer 23. (b)

(i) The loss due to break out of fire is an example of event occurring after the balance sheet date that does not relate to condition existing at the balance sheet date. It has not affected the financial position as on the date of the balance sheet and therefore requires no specific adjustments in the financial statements. However, paragraph 8.6 of AS-4 states that disclosure is generally made of events in subsequent periods that represent unusual changes affecting the existence of the enterprise at the balance sheet date. In the given case, the loss of assets in a factory is considered to be an event affecting the existence of the enterprise after the balance sheet date. Hence, as recommended in paragraph 15 of AS-4, disclosure of the event should be made in the report of the approving authority that represent material changes and commitments affecting the financial position of the enterprise.

(ii) The undisputed part of sales tax liability of Rs. 0.50 crore should be considered as actual liability and adequately provided for. Accounting standard 29 deals with "Provisions Contingent Liabilities and Contingent Assets''. According to the standard, an enterprise should not recognize a contingent liability but should disclose it, as required by paragraph 68, unless the possibility of an outflow of resources embodying economic benefits is remote. Accordingly the company should disclose the disputed part of sales tax liability of Rs. 3 crore as contingent liability in their financial statements of the year. However, the above disclosed contingent liability should be reviewed continuously and if it becomes probable that an outflow of future economic benefit will be required, then recognize the contingent liability as a provision.

Q. 24. Write short note on :

(a) Classification of investments by a banking company.

(b) Valuation Balance Sheet.

(c) Double Accounts System.

(d) Votable and non-votable items.

Answer 24. (a)

The investment portfolio of a bank would normally consist of both approved securities (predominantly government securities) and other securities (shares, debentures, bonds etc.). Banks are required to classify their entire investment portfolio into three categories :

(i) **Held-to-maturity :** Securities acquired by banks with the intention to hold them up to maturity should be classified as 'held-to-maturity'

(ii) **Held-for-maturity :** Securities acquired by banks with the intention to trade by taking advantage of short–term price interest rate movements should be classified as held-for trading/maturity.

(iii) **Available-for-sale :** Securities which do not fall within the above two categories should be classified as available-for-sale'.

Answer 24. (b)

For the purpose of ascertaining , the insurance company calculates its net liability on all outstanding policies. For calculating net liability the actuaries calculate the present value of future liability on all the policies in future as present value of future premium to be received on all policies in future. The excess of the present values of future liability over the present value premium is called the net liability.

It is by comparing the life insurance fund and net liability in respect of policies, that profit of life insurance business can be as estimated. If the fund is more than net liability , the difference represents profit. On the other hand , excess of net liability over the life assurance fund represents loss for inter-valuation period.

The profit or loss in life insurance business is ascertained by preparing a statement called Valuation Balance Sheet which is given below :

Valuation Balance Sheet as on........

To Net liability as per actuary's valuations		By Life Assurance Fund as per Balance Sheet	
To Surplus (net profit)		By Deficiency (net loss)	

Answer 24. (c)

Double Accounts system is the name given to the system of preparing the final accounts of certain statutory companies formed by special Acts of Parliament, usually public utility undertakings (for example Electricity Companies). The double accounts system is not a special method of keeping accounts, rather a special method of presenting accounts which are kept under the normal double entry system. Under this system, separate accounts in respect of capital and revenue are prepared in order to show clearly the capital receipts and the manner in which the amounts thereof have been invested. The final accounts prepared under the double accounts system normally consist of :

(i) Revenue Account

(ii) Net Revenue Account

(iii) Capital Account (Receipts and Expenditure on capital account)

(iv) General Balance Sheet.

The Revenue account is analogous to the Profit & Loss Account of a company with some exceptions. The Net Revenue Account resembles with appropriation portion of the Profit & Loss Account of a company. The Balance Sheet is presented in two parts namely Capital Account and General Balance Sheet. The Capital Account shows the total amount of capital raised and its sources and also the manner and extent to which this capital has been applied in the acquisition of fixed assets for the purpose of carrying on the business. The General balance sheet includes the other items.

The Double Accounts System in its pure form does no longer exist but the statements submitted to State Governments by electricity companies generally follow the principle of Double Accounts System. It may be noted that for presenting accounts to the shareholders, electricity companies normally follow Schedule VI of the Companies Act, 1956.

Answer 24. (d)

Certain items of expenditure are charged to the consolidated fund or public fund account. They are incurred regardless of legislative approval. These are called non-votable items.

Other items are votable and expenditure thereon can be made only after the sanction of Parliament. The Govt. makes the demand for grants for these items of expenditure. These demand may be reduced or even rejected but in case of non-votable items, it can at best be debated and nothing more than that.

Q. 25. (a) Briefly describe with reference to Accounting Standard 7 on Accounting for construction contracts, the methods which may be used for recognizing revenue on construction contracts.

Answer 25. (a)

As per Accounting Standard 7 on Accounting for Construction Contracts, two methods of accounting commonly followed by contractors for recognizing revenue on construction contracts are the percentage of completion method and the completed contract method.

Under the percentage of completion method, revenue is recognized as the contract activity progresses based on the stage of completion reached. The costs incurred in reaching the stage of completion are matched with this revenue, resulting in the reporting of results which can be attributed to the proportion of work completed. Although (as per the principle of 'prudence') revenue is recognized only when realized, under this method, the revenue is recognized as the activity progresses even though in certain circumstances it may not be realized.

Under the completed contract method, revenue is recognized only when the contract is completed or substantially completed; that is, when only minor work is expected other than warranty obligation. Costs and progress payments received are accumulated during the course of the contract but revenue is not recognized until the contract activity is substantially completed.

Under both methods, provision is made for losses for the stage of completion reached on the contract. In addition, provision is usually made for losses on the remainder of the contract.

It may be necessary for accounting purposes to combine contracts made with a single customer or to combine contracts made with several customers if the contracts are negotiated as a package or if the contracts are for a single project. Conversely, if a contract covers number of projects and if the costs and revenues of such individual projects can be identified within the terms of the overall contract, each such project may be treated as equivalent to a separate contract.

Q. 25. (b) Y. Ltd. undertook a contract No. 80 for Rs. 7,50,000. The contract account showed the following particulars :

2008 :

Materials Rs. 30,000, Wages Rs. 25,000, Overheads Rs. 10,000, Plant Rs. 1,00,000 and Materials at site at close Rs. 3,000.

2009 :

Materials Rs. 1,00,000, Wages Rs. 60,000, Overheads Rs. 15,000, Materials returned, Rs. 8,000. The Plant at its depreciated value was transferred to contract No. 88. Uncertified work Rs. 15,000.

2010 :

Materials Rs. 1,60,000, Wages Rs. 1,00,000, Overheads Rs. 28,000 and Materials Rs. 4,000.

The amount of work certified at the end of the first year was Rs. 1 ,00,000. The work certified upto the end of the second year was Rs. 4,00,000 and the work certified in the third year was Rs. 3,50,000. 80 percent of the certified work was received in cash.

Profit to be taken credit for are one-third and one-half on cash basis in each of the two years respectively. Depreciate plant by 10 percent on balance at the beginning of each year.

Prepare accounts in respect of the contract at the end of each year.

Answer 25. (b)

Dr. **Contract No. 80 Account** *Cr.*

2008 :	**Rs.**	**2008 :**	**Rs.**
To Materials	30,000	By Work-n-Progress A/c :	
To Wages	25,000	Materials	3,000
To Overheads	10,000	Plant	90,000
To Plant	1,00,000	Certified Work	1,00,000
To Balance c/d	28,000		
	1,93,000		1,93,000
To Profit & Loss Account	7,467	By Balance b/d	28,000
To Work-in-Progress Account	20,533		
	28000		28,000
2009 :		**2009 :**	
To Work-in-Progress — Opening balance transferred:		By Work-in-Progress — Opening provision transferred	20,533
Materials	3,000	By Materials — returned	8,000
Plant	90,000	By Contract No. 88— Plant	
Certified Work	1,00,000	transferred	81,000
To Materials	1,00,000	By Work-in-Progress c/d:	
To Wages	60,000	Uncertified Work	15,000
To Overheads	15,000	Certified Work	4,00,000
To Balance cld	1,56,533		
	5,24,533		5,24,533
To Profit & Loss Account	62,613	By Balance b/d	1,56,533
To Work-in-Progress	93,920		
	1,56,533		1,56,533
2010 :		**2010 :**	
To Work-in-Progress :		By Work-in-Progress	93,920
Uncertified Work	15,000	By Bank — sale of materials	4,000
Certified Work	4,00,000	By Contractee's Account	
To Materials	1,60,000	(4,00,000 + 3,50,000)	7,50,000
To Wages	1,00,000		
To Overheads	28,000		
To Profit & Loss Account	1,44,920		
	8,47,920		8,47,920

Notes :

Profit credited in 2008 and 2009 :	2008 (Rs.)	2009 (Rs.)
Accounting Profit	28,000	1,56,533
Cash Profit — on 80% basis	22,400	1,25,226
Proportionate profit to be credited	$\frac{1}{3} \times 22,400 = 7,467$	$\frac{1}{2} \times 1,25,226 = 62,613$

In absence of specific direction, on profit in 2008 would have been considered as extent of completion was less than one-third.

In 2010 the entire work was certified and hence no provision is necessary.

Q. 26. (a) From the following details prepare "Acceptances, Endorsements and other Obligation A/c" as would appear in the general ledger.

On 1.4.09 Acceptances not yet satisfied stood at Rs. 3345,000. Out of which Rs. 30 lacs were subsequently paid off by clients and bank had to honour the rest. A scrutiny of the Acceptance Register revealed the following :

Client	Acceptances/Guarantees	Remarks
	Rs.	
P	1500,000	Bank honoured on 10.6.09
Q	1800,000	Party paid off on 30.9.09
R	750,000	Party failed to pay and bank had to honour on 30.11.09
S	1200,000	Not satisfied upto 31.3.10
T	750,000	-do-
X	405,000	-do-
Total	6405,000	

Answer 26. (a)

Acceptances, Endorsements and other Obligation Account (in General Ledger)

(Rs. '000)

Dr. *Cr.*

Date	Particulars	Rs.	Date	Particulars	Rs.
2009-10	To Constituents' liabilities for acceptances/guarantees etc. (Paid off by clients)	3,000	1.4.09	By Balance b/d	3345
	To Constituent's liabilities for acceptances/guarantees etc. (Honoured by bank Rs. 22.30 lakhs less Rs. 20 lakhs)	345	2009-10	By Constituents' liabilities for acceptances/ guarantees etc. P 1500 Q 1800 R 750 S 1200 T 750 X 405	6405
10.6.09	To Constituents' liabilities for acceptances/guarantees etc. (Honoured by bank)	1500			
30.9.09	To Constituents' liabilities for acceptances/guarantees etc. (Paid off by party)	1800			
30.11.09	To Constituent's liabilities for acceptances/guarantees etc. (Honoured by bank on party's failure to pay)	750			
31.3.10	To Balance c/d (Acceptances not yet satisfied)	2355			
		9750			**9750**

Q. 26. (b) From the following information find out the amount of provisions required to be made in the Profit & Loss Account of a commercial bank for the year ended 31st March, 2010 :

(i) Packing credit outstanding from Food Processors Rs. 90 lacs against which the bank holds securities worth Rs. 22.50 lacs. 40% of the above advance is covered by ECGC. The above advance has remained doubtful for more than 3 years.

(ii) Other advances :

Assets classification	**Rs. in lacs**
Standard	**4500**
Sub-standard	**3300**
Doubtful :	
For one year	**1350**
For two years	**900**
For three years	**600**
For more than 3 years	**450**
Loss assets	**900**

Answer 26. (b)

(i)

		(Rs. in lacs)
	Rs.	**Rs.**
Amount outstanding (packing credit)	90.00	
Less : Realisable value of securities	22.50	
	67.50	
Less : ECGC cover (40%)	27.00	
Balance	40.50	
Required provision :		
Provision for unsecured portion (100%)		40.50
Provision for secured portion (100%)*		22.50
		63.00

(ii) Other advances :

			(Rs. in lacs)
Assets	Amount Rs.	% of provision	Provision Rs.
Standard	4500	0.40*	18
Sub-standard	3300	10	330
Doubtful :			
For one year	1350	20	270
For two years	900	30	270
For three years	600	30	180
For more than three years	450	100*	450
Loss	900	100	900
Required provision	12,000		2418

Note : Doubtful advances have been taken as fully secured. However, in case, the students assume that no security cover is available for these advances, provision will be made for 100%.

* As per the Master Circular issued by RBI " DBOD No. BP. BC. 11/21.04.048/2005-06" dated November 4, 2005.

Q. 27. (a) Prudence Life Insurance Co. furnishes you the following information:

	Rs.
Life Insurance fund on 31.3.2010	**1,30,00,000**
Net liability on 31.3.2010 as per actuarial valuation	**1,00,00,000**
Interim bonus paid to policyholders during intervaluation period	**7,50,000**

You are required to prepare :

(i) Valuation Balance Sheet;

(ii) Statement of Net Profit for the valuation period; and

(iii) Amount due to the policyholders.

Answer 27. (a)

(i)

Prudence Life Insurance Co.
Valuation Balance Sheet as at 31st March, 2010

	Rs.		Rs.
To Net Liability as per actuarial valuation	100,00,000	By Life Assurance Fund	130,00,000
To Surplus	30,00,000		
	130,00,000		130,00,000

(ii) **Statement showing Net Profit for the valuation period**

	Rs.
Surplus as per Balance Sheet (i.e., Valuation Balance Sheet)	30,00,000
Add: Interim bonus paid	7,50,000
	37,50,000

(iii) **Amount due to policyholders**

	Rs.
95% of net profit due to policyholders (95% of Rs. 37,50,000)	35,62,500
Less: Interim bonus already paid	7,50,000
Amount due to policyholders	28,12,500

Q. 27. (b) From the following figures appearing in the books of Fire Insurance division of HBC General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2010 :

		Direct Business Rs.	Re-Insurance Rs.
Claim paid during the year		**7005000**	**1050000**
Claim Payable—	**1st April, 2009**	**1144500**	**130500**
	31st March, 2010	**1218000**	**79500**
Claims received		**–**	**345000**
Claims Receivable—	**1st April, 2009**	**–**	**97500**
	31st March, 2010	**–**	**169500**
Expenses of Management (includes Rs. 52500 Surveyor's fee and Rs. 67500 Legal expenses for settlement of claims)		**345000**	**–**

Answer 27. (b)

HBC General Insurance Company
(Abstract showing the amount of claims)

	Rs. '000	Rs. '000
Claims *less* Re-insurance :		
Paid during the year	7830	
Add : Outstanding claims at the end of the year	1128	
	8958.0	
Less : Outstanding claims at the beginning of the year	1177.5	7780.5

Working Notes :

	Rs. '000	Rs. '000
1. Claims paid during the year		
Direct business	7005	
Reinsurance	1050	8055
Add : Surveyor's fee	52.5	
Legal expenses	67.5	120
		8175
Less : Claims received from re-insurers		345
		7830
2. Claims outstanding on 31st March, 2010		
Direct business	1218.0	
Reinsurance	79.5	1297.5
Less : Claims receivable from re-insurers		169.5
		1128
3. Claims outstanding on 1st April, 2009		
Direct business	1144.0	
Reinsurance	130.5	1275.0
Less : Claims receivable from re-insurers		97.5
		1177.5

Q. 28. RX Electricity Company Limited decides to replace one of its old plants with a modern one in April, 2009. The plant when installed in the year 2003, costed the company Rs. 32.50 lacs the components of materials and labour being in the ratio of 7:3. It is ascertained that the cost of labour and materials have risen by 35% and 27% respectively. The cost of new plant is Rs. 82.50 lacs and in addition old materials worth Rs. 115,000 are reused. Old materials worth Rs. 210,000 are sold. Under double account system compute the following:

(i) The amount to be written off to Revenue A/c.

(ii) The amount to be capitalized.

(iii) Draw up the necessary Journal entries.

(iv) Draw up the Replacement Account.

Answer 28.

(i) Statement showing amount to be written off to Revenue Account

			Rs.
Cost of old plant			32,50,000
Add: Increase in cost of material		32,50,000× 7/10×27/100	6,14,250
Increase in cost of Labour		32,50,000 ×3/10×35/100	3,41,250
Current cost of old plant			42,05,500
Less: Cost of Material used		1,15,000	
Cost of Material sold		2,10,000	(-) 3,25,000
Amount to be written off to Revenue A/c			38,80,500

(ii) Statement showing amount to be capitalised

	Rs.
Cost of new plant excluding the value of old materials used	82,50,000
Less: Current cost of old plant	42,05,500
Current cost to be capitalized	40,44,500
Add: Value of old material used	1,15,000
Total amount to be capitalized	41,59,500

(iii) Journal Entries in the Books of RX Electricity Company Ltd.

			Rs.	*Rs.*
(a)	Replacement Account	Dr.	42,05,500	
	To Bank Account			42,05,500
	(Being the replacement of old plant by a new plant; the current cost of replacement Rs. 42 05 500)			
(b)	Plant Account	Dr.	41,59,500	
	To Replacement Account			1,15,000
	To Bank Account			40,44,500
	(Being additional cost of new plant capitalized and also old materials used in construction of new plant)			
(c)	Bank Account	Dr.	2,10,000	
	To Replacement A/c			2,10,000
	(Being the sale of old materials for Rs. 2 10,000)			
(d)	Revenue A/c	Dr.	38,80,500	
	To Replacement Account			38,80,500
	(Being the balance of replacement account transferred to revenue account)			

(iii) **Replacement Account**

Dr. *Cr.*

	Rs.		*Rs.*
To Bank A/c	42,05,500	By New Plant A/c	1,15,000
		By Bank A/c	2,10,000
		By Revenue A/c (Balancing figure)	38,80,500
	42,05,500		42,05,500

Q. 29. From the following information relating to ST Ltd. , prepare a Balance Sheet as on 31.3.2010.

Current Ratio	**3**
Fixed Assets/Shareholders' Networth	**0.9**
Reserve & Surplus/Share Capital	**0.25**
Average Debt Collection period	**3months**
G.P Ratio	**25 %**
Cost of Sales/Closing Stock	**13.5 times**
Net Working Capital	**Rs. 600,000**
Liquid Ratio	**2.25**

Answer 29.

(i) Current Ratio = CA/CL=3

Or, CA = 3 CL

Net Working Capital = CA – CL= 6,00,000

Or, 3 CL- CL = 6,00,000

Or, 2 CL = 6,00,000

Or, CL = 3,00,000

Thus CA = 9,00,000

(ii) Liquid Ratio = (CA – Stock)/CL = 2.25

Or, (9,00,000-Stock)/3,00,000 = 2.25

Or, Stock = 225000

(iii) Cost of Sales/Closing Stock = 13.5

Cost Of Sales=225000×13.5 = Rs. 30,37,500

(iv) G/P Ratio = 25%

Cost of Sales/Sales = 75%

Sales = 3037500/75% = Rs. 40,50,000

(v) Average Debt Collection period = 3 months = 4 times

Or, Sales/Debtors = 4

Or, Debtors = 40,50,000/4 = Rs. 10,12,500

(vi) Fixed Assets/Networth = 0.9

Or, Working Capital/ Net worth = 1– 0.9 = 0.1

Or, Networth = Rs. 6,00,000/0.1 = Rs. 60,00,000

Fixed Assets = 0.9 × 60,00,000 = Rs. 54,00,000

(vii) Reserves & Surplus/Share Capital = 0.25/1

Reserves & Surplus+ Share Capital = 1+0.25 = 1.25

Reserves & Surplus = 60,00,000 × 0.25/1.25 = 12,00,000

Share Capital = Rs. 12,00,000/0.25 = Rs. 48,00,000

Balance Sheet as on 31.3.2010

Liabilities	Rs.	Assets	Rs.
Share Capital	48,00,000	Fixed Assets	54,00,000
Reserves & Surplus	12,00,000	Current Assets	9,00,000
Current Liabilities	3,00,000		
	63,00,000		63,00,000

Q. 30. ABC Ltd. firm has a sales of Rs.6 crores, Variable cost Rs. 3.5 crores and Fixed cost of Rs. 0.65 crores. The firm has debt and equity resources worth of Rs.7 crores and 10 crores respectively. With the data given show :

(i) The firm's ROI.

(ii) EBIT if sales decline to Rs.4 crores.

(iii) If the industry's assets turnover is 4 times, does the firm has high or low asset turnover? The cost of debt is 12%. Ignore taxation.

Answer 30.

		(Rs. Crore)
	Sales	9.0
Less :	Variable cost	5.25
	Contribution	3.75
Less :	Fixed Cost	0.975
	EBIT	2.775
Less :	Interest	1.26
	EBT	1.515
	Total Investment = Debt + Capital	
	10.5+15 =	25.50 Crores
(i)	ROI = EBIT/Total Investment = 2.775/25.5 =	10.88%
(ii)	If Sales decreases to 6 crores	
	Sales	6.0
	As Sales decreases by 33.33%, Variable Cost also decreases by 33.33%	3.5
	Contribution	2.5
Less :	Fixed Cost	0.975
	EBIT	1.525
Less:	Interest	1.26
	EBT	0.265
(iii)	Asset turnover = Sales/Total asset = 9/25.5 = .3529	

The firm has a much lower Asset turnover as compared to the industry.