**INTERMEDIATE (IPC)** **MAY 2014**

Roll No. .................... **GROUP II - PAPER 5**

**ADVANCED ACCOUNTING**

Total No. of Questions – 7 Total No. of Printed Pages – **15**

Time Allowed – **3** Hours Maximum Marks – **100**

# EDN

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

Wherever appropriate, suitable assumptions may be made by the candidates.

Working notes should form part of the answer.

Question No. 1 is compulsory.

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

**Marks**

1. Answer the following questions : **4×5 =20**

(a) In its Final Accounts for the year ended 31st March, 2014, Z Ltd. made a provision of 3% of its total debtors. On 10th March, 2014, a debtor of ₹ 5 lakhs suffered a heavy loss and became insolvent in April 2014. The loss was not insured. **5**

State giving reasons, if the company may provide for the full loss in its accounts for the year ended 31st March, 2014.

Marks

(b) Suhana Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.05.2013, to be utilized as under : 5

| Particulars | Amount (₹ in Lakhs) |
|---|---|
| Construction of factory building | 40 |
| Purchase of Machinery | 35 |
| Working Capital | 25 |

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

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

(c) What do you understand by the term "Interest rate implicit on lease" ? 5

Calculate the interest rate implicit on lease from the following details :

| | | |
|---|---|---|
| Annual Lease Rent | : | ₹ 80,000 at the end of each year |
| Lease Period | : | 5 Years |
| Guaranteed Residual Value | : | ₹ 40,000 |
| Unguaranteed Residual Value | : | ₹ 24,000 |
| Fair Value at the inception of the lease | : | ₹ 3,20,000 |

Marks

Discounted rates for the first 5 years are as below :

At 10% 0.909, 0.826, 0.751, 0.683, 0.621

At 14% 0.877, 0.769, 0.675, 0.592, 0.519

(d) The following information is available for AB Ltd. for the accounting year 2012-13 and 2013-14 : 5

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

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

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

: Right Issue price ₹ 25

: Last date to exercise right 31st July, 2013

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

You are required to compute

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

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

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

Marks

2. The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2013. Their balance sheet as on that date is given below : 16

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

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

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

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

January 2014

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

Marks

February 2014

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

March 2014

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

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

3. (a) ZED Ltd. had 25000, 10% Debentures of ₹ 100 each outstanding as on 1st April, 2013, redeemable on 31st March, 2014. On 1st April, 2013, Sinking Fund was ₹ 24 lakhs represented by 3000 own Debentures purchased at the average price of ₹ 98 and 8% Stocks of face value of ₹ 22 lakhs. The annual installment towards Sinking Fund was ₹ 90,000. **8**

Marks

On 31st March, 2014, the investments were realized at ₹ 97 and the Debentures were redeemed.

Draw the following Accounts for the year ended 31st March, 2014 :

(i) 10% Debenture Account,

(ii) Debenture Redemption Sinking Fund Account,

(iii) Show the necessary working notes.

(b) A company made a public issue of 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. The entire issue was underwritten by the underwriters L, M, N and O in the ratio of 4 : 3 : 2 : 1 respectively with the provision of firm underwriting of 5000, 4000, 2000 and 2000 shares respectively. **8**

The company received application for 1,50,000 shares (excluding firm underwriting) from public, out of which applications for 55000, 40000, 42000 and 8000 shares were marked in favour of L, M, N and O respectively.

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

4. P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The Balance Sheet of the companies as on 31.03.2014 were as under : **16**

Marks

**P Limited**

**Balance Sheet as at 31.03.2014**

| Particulars | Amount ₹ |
|---|---|
| I. Equity and Liabilities | |
| 1. Shareholder's Fund | |
| (a) Share Capital | 1,40,000 |
| (b) Reserve & Surplus | |
| Profit & Loss A/c | 30,000 |
| 2. Non Current Liabilities | |
| 8% Secured Debentures | 1,10,000 |
| 3. Current Liabilities | |
| Trade Payables | 54,000 |
| **Total Liabilities** | **3,34,000** |
| II. Assets | |
| 1. Noncurrent assets | |
| (a) Fixed Assets | |
| Building at cost less Depreciation | 1,00,000 |
| Plant & Machinery at cost less Depreciation | 25,000 |
| 2. Current Assets | |
| (a) Inventories | 1,35,000 |
| (b) Trade Receivables | 44,000 |
| (c) Cash at Bank | 30,000 |
| **Total Assets** | **3,34,000** |

Marks

**Q Limited**

**Balance Sheet as at 31.03.2014**

| Particulars | Amount ₹ |
|---|---|
| I. Equity and Liabilities | |
| 1. Shareholder's Fund | |
| (a) Share Capital | 2,50,000 |
| (b) Reserve & Surplus | |
| General Reserve | 1,20,000 |
| Profit & Loss A/c | 35,000 |
| 2. Current Liabilities | |
| Trade Payables | 1,40,000 |
| **Total Liabilities** | **5,45,000** |
| II. Assets | |
| (1) Noncurrent assets | |
| (a) Fixed Assets | |
| Building at cost less Depreciation | 1,90,000 |
| Plant & Machinery at cost less Depreciation | 80,000 |
| Furniture & Fixture at cost less Depreciation | 25,000 |
| (2) Current Assets | |
| (a) Inventories | 50,000 |
| (b) Trade Receivables | 1,42,000 |
| (c) Cash at Bank | 58,000 |
| **Total Assets** | **5,45,000** |

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below :

(i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.

(ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.

(iii) The debtors of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the sundry creditors are to be paid out of the proceeds thereof.

(iv) The debentures of P Ltd. are to be discharged by issue of 8% debentures of PQ Ltd. at a premium of 10%.

You are required to :

(i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.

(ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2014, the date of completion of amalgamation,

(iii) Write up journal entries including bank entries for closing the books of P Ltd.

Marks

5. (a) Jay Electricity Company keeps accounts under the Double Accounts System. It decides to replace its old Plant with a new Plant. The Plant when installed in 2004 cost the company ₹ 75 Lakhs, the components of materials, labour and overheads being in the ratio of 4 : 4 : 2. It is ascertained that the cost of materials has gone up by 250% and the cost of the labour has gone up by 200%. The proportion of material, labour and overheads has changed to 5 : 4 : 4. **8**

The cost of the new plant is ₹ 250 Lakhs. In addition, goods worth ₹ 38 lakhs have been used in the construction of the new Plant. The old Plant was sold as scrap for ₹ 15 lakhs.

You are required to calculate :

(i) The amount to be capitalized,

(ii) The amount to be charged to Revenue.

Necessary Ledger Accounts are to be drawn as working notes.

(b) From the following information of XYZ Marine Insurance Ltd for the year ending 31st March, 2014, find out the **8**

(i) Net Premium earned

(ii) Net Claims Incurred

Marks

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

Marks

6. (a) Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following : 8

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

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

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

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

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

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

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

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

(b) Department P sells goods to Department S at a profit of 25% on cost and to Department Q at a profit of 15% on cost. Department S sells goods to P and Q at a profit of 20% and 30% on sales respectively. Department Q sells goods to P and S at 20% and 10% profit on cost respectively. **8**

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

| | ₹ |
|---|---|
| Department P | 90,000 |
| Department S | 60,000 |
| Department Q | 45,000 |

Stock lying at different Departments at the end of the year are as below:

| | | | **Figures in ₹** |
|---|---|---|---|
| | **DEPARTMENTS** | | |
| | **P** | **S** | **Q** |
| Transfer from P | – | 18,000 | 14,000 |
| Transfer from S | 48,000 | – | 38,000 |
| Transfer from Q | 12,000 | 8,000 | – |

Find out correct Departmental Profits after charging Managers' Commission.

Marks

7. Answer any **four** of the following : 4×4 =16

(a) A loan account remains out of order as on the date of Balance Sheet of a Bank. The account has been classified as doubtful assets (up to 3 years). Detail of the account is : 4

| | |
|---|---|
| Outstanding | ₹ 7,24,000 |
| ECGC Cover | 30% of outstanding (Subject to maximum of ₹ 1,50,000) |
| Value of security<br>As per valuation on the date of grant of loan<br>As per realizable value as on date of Balance Sheet | <br>2,25,000<br>1,75,000 |

Compute the necessary provision to be made by bank as per applicable rate.

(b) State under which head these accounts should be classified in Balance Sheet as per Schedule VI of the Companies Act : 4

(i) Share application money received in excess of issued share capital.

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

(iv) Uncalled liability on shares and other partly paid investments.

(v) Calls unpaid.

(vi) Intangible Assets under development.

(vii) Money received against share warrant.

(viii) Long term maturity of finance lease obligation.

**Marks**

(c) Explain in brief the treatment of Refund of Government Grants in line with AS 12 in the following three situations : **4**

(i) When Government Grant is related to revenue,

(ii) When Government Grant is related to specific fixed assets,

(iii) When Government Grant is in the nature of Promoter's contribution.

(d) W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that the firm will not be dissolved before expiry of five years. The firm is dissolved after three years. W claims refund of premium. **4**

(i) List the criteria for the calculation of the amount of refund.

(ii) Also list any two conditions when no claim in this respect will arise.

(e) Give four conditions to be fulfilled by a Joint Stock Company to buy back its equity Shares. **4**

---

**PAPER – 5 : ADVANCED ACCOUNTING**

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

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

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

*Working Notes should form part of the answer.*

**Question 1**

*Answer the following questions:*

(a) *In its Final Accounts for the year ended 31st March, 2014, Z Ltd. made a provision of 3% of its total debtors. On 10th March, 2014, a debtor of ₹ 5 lakhs suffered a heavy loss and became insolvent in April 2014. The loss was not insured.*

*State giving reasons, if the company may provide for the full loss in its accounts for the year ended 31st March, 2014.* *(5 Marks)*

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

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

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

*Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.* *(5 Marks)*

(c) *What do you understand by the term "Interest rate implicit on lease"?*

*Calculate the interest rate implicit on lease from the following details:*

| | |
|---|---|
| *Annual Lease Rent* | *₹ 80,000 at the end of each year* |
| *Lease Period* | *5 Years* |
| *Guaranteed Residual Value* | *₹ 40,000* |
| *Unguaranteed Residual Value* | *₹ 24,000* |
| *Fair Value at the inception of the lease* | *₹ 3,20,000* |

*Discounted rates for the first 5 years are as below:*

*At 10% 0.909, 0.826, 0.751, 0.683, 0621*

*At 14% 0.877, 0.769, 0.675, 0.592, 0.519* *(5 Marks)*

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

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

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

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

*: Right Issue price ₹ 25*

*: Last date to exercise right 31st July, 2013*

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

*You are required to compute:*

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

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

*(iii) Basic earnings per share for the year 2013-14.* *(5 Marks)*

**Answer**

**(a)** According to para 8.2 of Accounting Standard 4 "Contingencies and Events Occurring after the Balance Sheet Date", adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date.

In the given case, though the debtor became insolvent after balance sheet date, yet he had suffered heavy loss (not covered by the insurance), before the balance sheet date and this loss was the cause of the insolvency of the debtor.

Therefore the company must make full provision for bad debts amounting ₹ 5 lakhs in its final accounts for the year ended 31st March, 2014.

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

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

Thus, eligible borrowing cost

= ₹ 11,00,000 – ₹ 2,00,000

= ₹ 9,00,000

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

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

**(c)** As per para 3 of AS 19 ' Leases' the interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of

(a) the minimum lease payments under a finance lease from the standpoint of the lessor; and

(b) any unguaranteed residual value accruing to the lessor,

to be equal to the fair value of the leased asset.

**Present value at discount rate of 10%**

| *Year* | *Lease Payments (₹)* | *Disc. Factor (10%)* | *Present Value (₹)* |
|---|---|---|---|
| 1 | 80,000 | 0.909 | 72,720 |
| 2 | 80,000 | 0.826 | 66,080 |
| 3 | 80,000 | 0.751 | 60,080 |
| 4 | 80,000 | 0.683 | 54,640 |
| 5 | 80,000 | 0.621 | 49,680 |

| | | | |
|---|---|---|---|
| 5 | 40,000 | 0.621 | 24,840 |
| 5 | 24,000 | 0.621 | 14,904 |
| | Total | | 3,42,944 |

**Present value at discount rate of 14%**

| *Year* | *Lease Payments (₹)* | *Disc. Factor (10%)* | *Present Value (₹)* |
|---|---|---|---|
| 1 | 80,000 | 0.877 | 70,160 |
| 2 | 80,000 | 0.769 | 61,520 |
| 3 | 80,000 | 0.675 | 54,000 |
| 4 | 80,000 | 0.592 | 47,360 |
| 5 | 80,000 | 0.519 | 41,520 |
| 5 | 40,000 | 0.519 | 20,760 |
| 5 | 24,000 | 0.519 | 12,456 |
| | Total | | 3,07,776 |

Interest Rate Implicit on Lease = 10% + $\frac{14\% - 10\%}{3,42,944 - 3,07,776} \times (3,42,944 - 3,20,000)$

= 10% + 2.609% = 12.609% or say 12.61%

**(d) Computation of Basic Earnings per Share**

| | | *Year 2012-13 (₹)* | *Year 2013-14 (₹)* |
|---|---|---|---|
| (i) | EPS for the year 2012-13 as originally reported<br>= Net profit for the year attributable to equity share holder / weighted average number of equity shares outstanding during the year<br>$\frac{₹\ 22,00,000}{10,00,000 \text{ shares}}$ | 2.20 | |
| (ii) | EPS for the year 2012-13 restated for the right issue<br>$\frac{₹\ 22,00,000}{10,00,000 \text{ shares} \times 1.04}$ | 2.12 | |
| (iii) | EPS for the year 2013-14 (including effect of right issue)<br>$\frac{₹\ 30,00,000}{(10,00,000 \times 1.04 \times 4/12) + (12,00,000 \times 8/12)}$ | | 2.62 |

**Working Notes:**

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

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

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

= ₹ 30.83

2. **Computation of adjustment factor**

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

$$= \frac{₹\ 32}{₹\ 30.83}$$

= 1.04 (approx.)

**Question 2**

*The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2013. Their balance sheet as on that date is given below:*

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

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

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

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

*January 2014*

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

*February 2014*

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

*March 2014*

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

*You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".* *(16 Marks)*

**Answer**

| *Particulars* | *Cash* | *Creditors* | *Capitals* | | |
|---|---|---|---|---|---|
| | *₹* | *₹* | *P (₹)* | *Q (₹)* | *R (₹)* |
| Balance due after loan | | 16,000 | 52,000 | 43,500 | 32,000 |
| **January** | | | | | |
| Balance available | 9,000 | | | | |
| Realization less expenses and cash retained | 10,000 | | | | |
| Amount available and paid | 19,000 | (16,000) | - | - | 3,000 |
| Balance due | - | - | 52,000 | 43,500 | 29,000 |
| **February** | | | | | |
| Opening Balance | 6,000 | | | | |
| Expenses paid and cash carried forward | 3,000 | | | | |
| Available for distribution | 3,000 | | | | |
| Cash paid to Q and Machinery given to R | | | - | 3,000 | 9,000 |
| Balance due | - | | 52,000 | 40,500 | 20,000 |

| | | | | | |
|---|---|---|---|---|---|
| **March** | | | | | |
| Opening Balance | 2,000 | | | | |
| Amount realized less expenses | 87,300 | | | | |
| Amount paid to partners | 89,300 | | 41,689 | 32,767 | 14,844 |
| Loss | | | 10,311 | 7,733 | 5,156 |

**Working Note:**

(i) **Highest Relative Capital Basis**

| | P (₹) | Q (₹) | R (₹) |
|---|---|---|---|
| Scheme of payment for January 2014 | | | |
| Balance of Capital Accounts | 65,000 | 50,500 | 32,000 |
| *Less*: Loans | (13,000) | (7,000) | - |
| (A) | 52,000 | 43,500 | 32,000 |
| Profit Sharing Ratio | 4 | 3 | 2 |
| Capital / Profit sharing Ratio | 13,000 | 14,500 | 16,000 |
| Capital in profit sharing ratio, taking P's capital as base (B) | 52,000 | 39,000 | 26,000 |
| Excess of R's capital and Q's Capital (A – B) (i) | | 4,500 | 6,000 |
| Profit Sharing Ratio | | 3 | 2 |
| Capital / Profit sharing Ratio | | 1,500 | 3,000 |
| Capital in profit sharing ratio, taking Q's capital as base (ii) | | 4,500 | 3,000 |
| Excess of R's Capital over Q's capital (i – ii) | | | 3,000 |

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

| | P (₹) | Q (₹) | R (₹) |
|---|---|---|---|
| Balance of Capital Accounts end of February (A) | 52,000 | 40,500 | 20,000 |
| Profit Sharing Ratio | 4 | 3 | 2 |
| Capital / Profit sharing Ratio | 13,000 | 13,500 | 10,000 |
| Capital in profit sharing ratio, taking R's capital as base (B) (i) | 40,000 | 30,000 | 20,000 |
| Excess of P's Capital and Q's Capital (A – B) (i) | 12,000 | 10,500 | |
| Profit Sharing Ratio | 4 | 3 | |
| Capital / Profit sharing Ratio | 3,000 | 3,500 | |
| Capital in profit sharing ratio taking P's capital as base (ii) | 12,000 | 9,000 | |
| Excess of Q's Capital over P's Capital (i – ii) | - | 1,500 | |
| Payment ₹ 1500 (C) | | (1,500) | |
| Balance of Excess Capital (i –C) | 12,000 | 9,000 | |

| | | | |
|---|---|---|---|
| Payment ₹ 21000 (D) | (12,000) | (9,000) | |
| Balance due (A – C – D) | 40,000 | 30,000 | 20,000 |
| Balance cash Payment (₹ 89,300 – ₹ 22,500) = ₹ 66,800 (E) | (29,689) | (22,267) | (14,844) |
| Total Payment (₹ 89,000) (C + D +E) (iii) | 41,689 | 32,767 | 14,844 |
| Loss (A – iii) | 10,311 | 7,733 | 5,156 |

## Question 3

(a) *ZED Ltd. had 25,000, 10% Debentures of ₹ 100 each outstanding as on 1st April, 2013, redeemable on 31st March, 2014. On 1st April, 2013, Sinking Fund was ₹ 24 lakhs represented by 3,000 own Debentures purchased at the average price of ₹ 98 and 8% Stocks of face value of ₹ 22 lakhs. The annual installment towards Sinking Fund was ₹ 90,000.*

*On 31st March, 2014, the investments were realized at ₹ 97 and the Debentures were redeemed.*

*Draw the following Accounts for the year ended 31st March, 2014:*

*(i) 10% Debenture Account,*

*(ii) Debenture Redemption Sinking Fund Account,*

*(iii) Show the necessary working notes.* *(8 Marks)*

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

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

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

*(8 Marks)*

## Answer

**(a) 10% Debentures Account**

| *Date* | *Particulars* | *₹* | *Date* | *Particulars* | *₹* |
|---|---|---|---|---|---|
| 31.03.14 | To Own Debentures | 3,00,000 | 01.04.13 | By Balance b/d | 25,00,000 |
| | To Bank | 22,00,000 | | | |
| | | 25,00,000 | | | 25,00,000 |

**Debenture Redemption Sinking Fund Account**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.03.14 | To General Reserve (See Note) | 27,30,000 | 01.04.13 | By Balance b/d | 24,00,000 |
| | | | 31.03.14 | By Profit & Loss a/c | 90,000 |
| | | | 31.03.14 | By Interest on Sinking Fund (W.N. 3) | 2,06,000 |
| | | | 31.03.14 | By Own Debentures (W.N. 4) | 6,000 |
| | | | 31.03.14 | By 8% Stock (Profit) (W.N. 5) | 28,000 |
| | | 27,30,000 | | | 27,30,000 |

**Working Notes:**

1. **Stock as on 1st April, 2013**

| | ₹ |
|---|---|
| Sinking Fund Balance as on 1st April, 2013 | 24,00,000 |
| *Less:* Own Debentures | 2,94,000 |
| 8% Stock | 21,06,000 |

2. **Sale Value of 8% Stock**

   Number of Stock = ₹ 22 lakhs / ₹ 100 = 22,000 no.

   Sale Value = 22,000 X ₹ 97 = ₹ 21,34,000

3. **Interest credited to Sinking Fund Account**

| | ₹ |
|---|---|
| Interest on 8% Stock (₹ 22 Lakh x 8 / 100) | 1,76,000 |
| Interest on own Debentures (3,000 x ₹ 100 x 10 / 100) | 30,000 |
| | 2,06,000 |

4. **Own Debentures Account**

| Date | Particuars | ₹ | Date | Particuars | ₹ |
|---|---|---|---|---|---|
| 01.04.13 | To Balance b/d | 2,94,000 | 31.03.14 | By 10% Debentures | 3,00,000 |
| 31.03.14 | To Sinking Fund A/c | 6,000 | | | |
| | | 3,00,000 | | | 3,00,000 |

5. **8% Stock Account**

| Date | Particuars | ₹ | Date | Particuars | ₹ |
|---|---|---|---|---|---|
| 01.04.13 | To Balance b/d | 21,06,000 | 31.03.14 | By Bank A/c (W.N. 2) | 21,34,000 |
| 31.03.14 | To Sinking Fund A/c (Profit) | 28,000 | | | |
| | | 21,34,000 | | | 21,34,000 |

**Note:** Since the balance of Debenture Redemption Sinking Fund Account is more than the nominal value of debentures redeemed, the amount equal to the amount of debentures redeemed may be transferred to General Reserve Account i.e. ₹ 25,00,000 and excess of fund i.e. ₹ 2,30,000 may be transferred to Capital Reserve Account on the assumption that it is a capital profit received on the appreciation in the value of investment or settlement of liability for a lesser amount that was usually payable.

**(b) Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriter**

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

**Working Note:**

| *Particulars* | *No. of shares* |
|---|---|
| Application received from public | 1,50,000 |
| *Add*: Firm underwriting | 13,000 |

| | |
|---|---|
| Total Applications | 1,63,000 |
| *Less:* Marked application | (1,45,000) |
| Unmarked application including firm underwriting | 18,000 |

**Question 4**

*P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The Balance Sheet of the companies as on 31.03.2014 were as under:*

***P Limited***
***Balance Sheet as at 31.03.2014***

| *Particulars* | *Amount (₹)* |
|---|---|
| *I. Equity and Liabilities* | |
| *1. Shareholder's Fund* | |
| *(a) Share Capital* | *1,40,000* |
| *(b) Reserves & Surplus* | |
| *Profit & Loss A/c* | *30,000* |
| *2. Non Current Liabilities* | |
| *8 % Secured Debentures* | *1,10,000* |
| *3. Current Liabilities* | |
| *Trade Payable* | *54,000* |
| ***Total*** | *3,34,000* |
| *II. Assets* | |
| *1. Non-current Assets* | |
| *(a) Fixed Assets* | |
| *Building at cost less Depreciation* | *1,00,000* |
| *Plant & Machinery at cost less Depreciation* | *25,000* |
| *2. Current Assets* | |
| *(a) Inventories* | *1,35,000* |
| *(b) Trade Receivables* | *44,000* |
| *(c) Cash at bank* | *30,000* |
| *Total* | *3,34,000* |

***Q Limited***
***Balance Sheet as at 31.03.2014***

| *Particulars* | *Amount (₹)* |
|---|---|
| *I. Equity and Liabilities* | |
| *1. Shareholder's Fund* | |

| | | | |
|---|---|---|---|
| | *(a)* | *Share Capital* | *2,50,000* |
| | *(b)* | *Reserves & Surplus* | |
| | | *General Reserve* | *1,20,000* |
| | | *Profit & Loss A/c* | *35,000* |
| *2.* | *Current Liabilities* | | |
| | | *Trade Payables* | *1,40,000* |
| *Total* | | | *5,45,000* |
| *II.* | *Assets* | | |
| *1.* | *Non-current assets* | | |
| | *(a)* | *Fixed Assets* | |
| | | *Building at cost less depreciation* | *1,90,000* |
| | | *Plant & Machinery at cost less depreciation* | *80,000* |
| | | *Furniture & Fixture at cost less depreciation* | *25,000* |
| *2.* | *Current Assets* | | |
| | *(a)* | *Inventories* | *50,000* |
| | *(b)* | *Trade Receivables* | *1,42,000* |
| | *(c)* | *Cash at bank* | *58,000* |
| *Total* | | | *5,45,000* |

*The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:*

*(i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.*

*(ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.*

*(iii) The debtors of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the sundry creditors are to be paid out of the proceeds thereof.*

*(iv) The debentures of P Ltd. are to be discharged by issue of 8% debentures of PQ Ltd. at a premium of 10%.*

*You are required to:*

*(i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.*

*(ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2014, the date of completion of amalgamation,*

*(iii) Write up journal entries including bank entries for closing the books of P Ltd.* *(16 Marks)*

**Answer**

**Calculation of Purchase Consideration**

| | *P Ltd. (₹)* | *Q Ltd. (₹)* |
|---|---:|---:|
| Assets taken over: | | |
| Goodwill | 50,000 | 1,50,000 |
| Building | 1,00,000 | 1,90,000 |
| Plant & Machinery | 25,000 | 80,000 |
| Furniture & Fixtures | - | 35,000 |
| Inventories | 1,35,000 | 50,000 |
| Trade Receivables | - | 1,42,000 |
| Cash at Bank | - | 58,000 |
| | 3,10,000 | 7,05,000 |
| *Less* :Liabilities taken over | | |
| 8% Debentures | (1,21,000) | - |
| Trade Payables | - | (1,40,000) |
| Net Assets taken over | 1,89,000 | 5,65,000 |
| To be satisfied by issue of shares of PQ Ltd. of ₹ 10 each at par | 18,900 | 56,500 |

**PQ Limited**

**Balance Sheet as at 1st April, 2014**

| *Particulars* | *Note No.* | *Amount (₹)* |
|---|---|---:|
| **I. Equity and Liabilities** | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 7,54,000 |
| (b) Reserve & Surplus | 2 | 11,000 |
| **(2) Non-current Liabilities** | | |
| (a) Long term borrowings | 3 | 1,10,000 |
| **(3) Current Liabilities** | | |
| (a) Trade Payables | | 1,40,000 |
| Total | | 10,15,000 |
| **II. Assets** | | |
| **(1) Non-current assets** | | |
| (a) Fixed Assets | | |
| Tangible | 4 | 4,30,000 |
| Intangible | 5 | 2,00,000 |

| | | |
|---|---|---|
| **(2) Current Assets** | | |
| a) Inventories | | 1,85,000 |
| b) Trade Receivables | | 1,42,000 |
| c) Cash at Bank | | 58,000 |
| Total | | 10,15,000 |

**Notes to Accounts:**

| | | | ₹ |
|---|---|---|---|
| 1 | **Share Capital** | | |
| | **Authorized** | | |
| | 1,00,000 shares of ₹ 10 each | | 10,00,000 |
| | **Issued, Subscribed and Paid up** | | |
| | 75,400 shares of ₹ 10 each | | 7,54,000 |
| | (All the above shares are allotted as fully paid up pursuant to scheme of amalgamation without payments being received in cash) | | |
| 2 | **Reserve & Surplus** | | |
| | Securities Premium Account | | 11,000 |
| 3 | **Long term borrowings -** | | |
| | 8 % Debentures | | 1,10,000 |
| 4 | **Tangible Fixed Assets** | | |
| | Building | | |
| | P Ltd. | 1,00,000 | |
| | Q Ltd. | 1,90,000 | 2,90,000 |
| | Plant & Machinery | | |
| | P Ltd. | 25,000 | |
| | Q Ltd. | 80,000 | 1,05,000 |
| | Furniture & Fixture | | |
| | Q Ltd. | | 35,000 |
| | | | 4,30,000 |
| 5 | **Intangible Asset** | | |
| | Goodwill | | |
| | P Ltd. | 50,000 | |
| | Q. Ltd. | 1,50,000 | 2,00,000 |

**Working Note:**

**Computation of Securities Premium**

Debentures issued by PQ Ltd. to the existing debenture holders of P Ltd. at 10% premium.

Securities Premium = ₹ 1,10,000 x 10% = ₹ 11,000.

**In the books of P Ltd. (Journal Entries)**

| | | | ₹ | ₹ |
|---|---|---|---|---|
| 1 | Realization Account | Dr. | 3,04,000 | |
| | To Building | | | 1,00,000 |
| | To Plant & Machinery | | | 25,000 |
| | To Inventories | | | 1,35,000 |
| | To Trade Receivables | | | 44,000 |
| | (Being all assets except cash transferred to Realization Account) | | | |
| 2 | 8% Debentures Account | Dr. | 1,10,000 | |
| | Trade Payables | Dr. | 54,000 | |
| | To Realization Account | | | 1,64,000 |
| | (Being all liabilities transferred to Realization Account) | | | |
| 3 | Equity Share Capital | Dr. | 1,40,000 | |
| | Profit & Loss Account | Dr. | 30,000 | |
| | To Equity Shareholder's Account | | | 1,70,000 |
| | (Being Equity transferred to Equity Shareholders' Account) | | | |
| 4 | PQ Ltd | Dr. | 1,89,000 | |
| | To Realization Account | | | 1,89,000 |
| | (Being Purchase consideration due) | | | |
| 5 | Bank Account | Dr. | 44,000 | |
| | To Realization Account | | | 44,000 |
| | (Being Cash received from trade receivables in full) | | | |
| 6 | Realization Account | Dr. | 54,000 | |
| | To Bank Account | | | 54,000 |
| | (Being payment made to Trade Payables) | | | |
| 7 | Shares in PQ Ltd. | Dr. | 1,89,000 | |
| | To PQ Ltd. | | | 1,89,000 |
| | (Being purchase consideration received in the form of Equity Shares of PQ Ltd.) | | | |
| 8 | Realization Account (balancing figure) | Dr. | 39,000 | |
| | To Equity Shareholders' Account | | | 39,000 |
| | (Being profit on realization transferred to Equity Shareholders' Account) | | | |

| | | | |
|---|---|---|---|
| 9 | Equity Shareholders' Account Dr. | 2,09,000 | |
| | To Shares in PQ Ltd. | | 1,89,000 |
| | To Bank Account | | 20,000 |
| | (Being final payment made to shareholders) | | |

**Question 5**

*(a) Jay Electricity Company keeps accounts under the Double Accounts System. It decides to replace its old Plant with a new Plant. The Plant when installed in 2004 cost the company ₹ 75 lakhs, the components of materials, labour and overheads being in the ratio of 4 : 4 : 2. It is ascertained that the cost of materials has gone up by 250% and the cost of the labour has gone up by 200%. The proportion of material, labour and overheads has changed to 5 : 4 : 4.*

*The cost of the new plant is ₹ 250 lakhs. In addition, goods worth ₹ 38 lakhs have been used in the construction of the new Plant. The old Plant was sold as scrap for ₹ 15 lakhs.*

*You are required to calculate:*

*(i) The amount to be capitalized,*

*(ii) The amount to be charged to Revenue.*

*Necessary Ledger Accounts are to be drawn as working notes.* *(8 Marks)*

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

*(i) Net Premium earned*

*(ii) Net Claims Incurred*

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

*(8 Marks)*

**Answer 5**

**(a)** **Jay Electricity Company**

| | Old Ratio | Cost of Old Plant | % increase | Current Cost | New Ratio |
|---|---|---|---|---|---|
| | | (₹ in lakhs) | | (₹ in lakhs) | |
| Materials | 4 | 30 | 250% | 75 | 5 |
| Labour | 4 | 30 | 200% | 60 | 4 |
| Overheads | 2 | 15 | | 60 | 4 |
| | | 75 | | 195 | |

**Amount to be Capitalized**

| | ₹ in lakhs |
|---|---|
| Cost of New Plant | 250 |
| *Add:* Cost of Materials used | 38 |
| | 288 |
| *Less:* Estimated Current Cost of Replacing the Plant | (195) |
| Amount to be Capitalized | 93 |

**Amount to be charged to Revenue**

| | ₹ in lakhs |
|---|---|
| Estimated Current Cost of Replacement | 195 |
| *Less:* Cash Sales of Scrap | (15) |
| *Less:* Materials used* | (38) |
| Amount to be Charged to Revenue | 142 |

**Working Notes:**

**Plant Account** (₹ in lakhs)

| | Amount | | Amount |
|---|---|---|---|
| To Balance b/d | 75 | By Balance c/d | 168 |
| To Bank A/c (250-195) | 55 | | |
| To Replacement A/c | 38 | | |
| | 168 | | 168 |

**Replacement Account** (₹ in lakhs)

| | Amount | | Amount |
|---|---|---|---|
| To Bank A/c | 195 | By Bank A/c | 15 |

* It is assumed that materials worth ₹ 38 lakhs, used in the construction of the new plant, are taken out from the old plant.

| | | | |
|---|---|---|---|
| | | By Plant A/c | 38 |
| | | By Revenue A/c | 142 |
| | 195 | | 195 |

**Note:** It is pertinent to note that the Electricity Act, 2003 does not deal with Replacement Accounting based on 'Double Accounting System'.

**(b) In the books of XYZ Marine Insurance Ltd.**

| | *Amount (₹)* |
|---|---|
| **(I) Net Premium earned** | |
| Premium from Direct Business received | 92,00,000 |
| *Add*: Receivable as on 31.03.2014 | 3,94,000 |
| *Less:* Receivable as on 01.04.2013 | (4,59,000) |
| Sub Total (A) | 91,35,000 |
| Premium on reinsurance accepted | 7,86,000 |
| *Add*: Receivable as on 31.03.2014 | 33,000 |
| *Less*: Receivable as on 01.04.2013 | (37,000) |
| Sub Total (B) | 7,82,000 |
| Premium on reinsurance Ceded | 6,36,000 |
| *Add:* Payable as on 31.03.2014 | 20,000 |
| *Less:* Payable as on 01.04.2013 | (28,000) |
| Sub Total (C) | 6,28,000 |
| Premium Earned (A+B-C) | 92,89,000 |
| **(II) Net Claims Incurred** | |
| Claims paid on direct business | 73,00,000 |
| *Add*: Outstanding as on 31.03.2014 | 1,01,000 |
| *Less*: Outstanding as on 01.04.2013 | (94,000) |
| Sub Total (A) | 73,07,000 |
| Reinsurance claims | 5,80,000 |
| *Add*: Outstanding as on 31.03.2014 | 12,000 |
| *Less*: Outstanding as on 01.04.2013 | (16,000) |
| Sub Total (B) | 5,76,000 |
| Claims received from reinsurance | 2,10,000 |
| *Add:* Outstanding as on 31.03.2014 | 39,000 |
| *Less*: Outstanding as on 01.04.2013 | (42,000) |
| Sub Total (C) | 2,07,000 |
| Net Claim Incurred (A+B-C) | 76,76,000 |

**Question 6**

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

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

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

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

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

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

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

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

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

*(8 Marks)*

(b) *Department P sells goods to Department S at a profit of 25% on cost and to Department Q at a profit of 15% on cost. Department S sells goods to P and Q at a profit of 20% and 30% on sales respectively. Department Q sells goods to P and S at 20% and 10% profit on cost respectively.*

*Departmental Managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated. Departmental profits after charging Manager's commission, but before adjustment of unrealized profits are as below:*

| | ₹ |
|---|---:|
| *Department P* | *90,000* |
| *Department S* | *60,000* |
| *Department Q* | *45,000* |

*Stock lying at different Departments at the end of the year are as below:*

| | | | Figures in ₹ |
|---|---|---|---|
| | DEPARTMENTS | | |
| | P | S | Q |
| Transfer from P | - | 18,000 | 14,000 |
| Transfer from S | 48,000 | - | 38,000 |
| Transfer from Q | 12,000 | 8,000 | - |

*Find out correct Departmental Profits after charging Managers' Commission.* *(8 Marks)*

**Answer**

**(a)** **Books of Branch**

**Journal Entries**

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

| | | | |
|---|---|---|---|
| (viii) | Goods –in- transit Account Dr.<br>To Head Office Account<br>(Being goods sent by Head Office still in-transit) | 10,000 | <br>10,000 |

**(b) Calculation of correct Departmental Profits**

| | *Department P (₹)* | *Department S (₹)* | *Department Q (₹)* |
|---|---|---|---|
| Profit after charging Manager's Commission | 90,000 | 60,000 | 45,000 |
| *Add:* Manager's Commission (1/9) | 10,000 | 6,667 | 5,000 |
| | 1,00,000 | 66,667 | 50,000 |
| *Less:* Unrealised profit on Stock (WN) | (5,426) | (21,000) | (2,727) |
| Profit Before Manager's Commission | 94,574 | 45,667 | 47,273 |
| *Less:* Manager's Commission 10% | (9,457) | (4,567) | (4,727) |
| Correct Profit after Manager's Commission | 85,117 | 41,100 | 42,546 |

**Working Notes:**

| | *Department P (₹)* | *Department S (₹)* | *Department Q (₹)* | *Total (₹)* |
|---|---|---|---|---|
| Unrealized Profit of: | | | | |
| Department P | - | 25/125X18,000 =3,600 | 15/115X14,000 =1,826 | 5,426 |
| Department S | 20/100X48,000 =9,600 | - | 30/100X38,000 =11,400 | 21,000 |
| Department Q | 20/120X12,000 =2,000 | 10/110X8,000 =727 | | 2,727 |

**Question 7**

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

*(a) A loan account remains out of order as on the date of Balance Sheet of a Bank. The account has been classified as doubtful assets (up to 3 years). Detail of the account is:*

| | |
|---|---|
| *Outstanding* | *₹ 7,24,000* |
| *ECGC Cover* | *30% of outstanding (Subject to maximum of ₹ 1,50,000)* |
| *Value of security* | |
| *As per valuation on the date of grant of loan* | *2,25,000* |
| *As per realizable value as on date of Balance Sheet* | *1,75,000* |

*Compute the necessary provision to be made by bank as per applicable rate.*

*(b) State under which head these accounts should be classified in Balance Sheet, as per Schedule VI of the Companies Act:*

*(i) Share application money received in excess of issued share capital.*

*(ii) Share option outstanding account.*

*(iii) Unpaid matured debenture and interest accrued thereon.*

*(iv) Uncalled liability on shares and other partly paid investments.*

*(v) Calls unpaid.*

*(vi) Intangible Assets under development.*

*(vii) Money received against share warrant.*

*(viii) Long term maturity of finance lease obligation.*

*(c) Explain in brief the treatment of Refund of Government Grants in line with AS 12 in the following three situations:*

*(i) When Government Grant is related to revenue,*

*(ii) When Government Grant is related to specific fixed assets,*

*(iii) When Government Grant is in the nature of Promoter's contribution.*

*(d) W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that the will not be dissolved before expiry of five years. The firm is dissolved after three years. W claims refund of premium.*

*(i) List the criteria for the calculation of the amount of refund.*

*(ii) Also list any two conditions when no claim in this respect will arise.*

*(e) Give four conditions to be fulfilled by a Joint Stock Company to buy back its equity Shares.*

*(4x 4 = 16 Marks)*

**Answer**

**(a) Computation of provision to be made by a Bank**

| | ₹ |
|---|---|
| Outstanding Value of Doubtful Asset (up to 3 years) | 7,24,000 |
| *Less :*Value of security (excluding ECGC cover) | (₹ 1,75,000) |
| Sub Total | ₹ 5,49,000 |
| *Less* :ECGC Cover (subject to ₹ 1,50,000 maximum) | (₹ 1,50,000) |
| Unsecured Portion | ₹ 3,99,000 |
| Provision: | |
| For unsecured portion @ 100% of ₹ 3,99,000 | ₹ 3,99,000 |
| For secured portion @ 40% of ₹ 1,75,000 | ₹ 70,000 |
| Total Provision | ₹ 4,69,000 |

**(b) Classification of following accounts for the presentation in Schedule VI to the Companies Act, 1956**

| *Sl. No.* | *Accounts* | *Head* |
|---|---|---|
| (i) | Share application money received in excess of issued share capital | Other Current Liabilities |
| (ii) | Share option outstanding account | Reserve & Surplus |
| (iii) | Unpaid matured debenture and interest accrued thereon | Other Current Liabilities |
| (iv) | Uncalled liability on shares and other partly paid investments | Contingent Liabilities and commitments-commitments to the extent not provided for |
| (v) | Calls unpaid | Share Capital |
| (vi) | Intangible Assets under development | Fixed Assets |
| (vii) | Money received against share warrant | Shareholders' Fund |
| (viii) | Long term maturity of finance lease obligation | Long Term Borrowings |

**(c)** As per AS 12, refund of Government Grant is treated in the following manner:

(a) When Government Grant is related to Revenue:

(i) The amount of refund is first adjusted against any unamortized deferred credit balance still remaining in respect of the Grant

(ii) Any excess refund over such deferred credit balance or where no deferred credit exists, is immediately charged to Profit & Loss Account.

(b) When Government Grant is related to specific Fixed Asset:

(i) The amount of refund will increase the Book Value of the Asset, if at the time of receipt of Grant, the cost of asset was reduced by the amount of Grant.

(ii) If at the time of receipt, the Grant amount was credited to Deferred Grant Account, then the amount of refund will first reduce the unamortized balance of Deferred Grant Account, any excess refund will reduce the Capital Reserve.

(c) When the Government Grant is in the nature of Promoter's Contribution:

Capital Reserve will be reduced by the amount of refund.

**(d)** If the firm is dissolved before the term expires, as is the case, W being a partner who has paid premium on admission will have to be repaid / refunded

The criteria for calculation of refund amount are:

(i) Terms upon which admission was made,

(ii) The time period for which it was agreed that the firm will not be dissolved,

(iii) The time period for which the firm has already been in existence.

No claim for refund will arise if:

(i) The firm is dissolved due to death of a partner,

(ii) If the dissolution of the firm is basically because of misconduct of W,

(iii) If the dissolution is through an agreement and such agreement does not have a stipulation for refund of premium.

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

1. Buy back is authorized by its articles.
2. A special resolution has been passed in general meeting of the shareholders of the company, authorizing the buy back.
3. The buyback does not exceed 25% of the total paid up capital and free reserves of the company.
4. All the shares proposed for buyback are fully paid up.
5. The ratio of the debts owed by the Company is not more than twice the capital and its free reserves after such buyback.
6. The buyback of listed shares is in accordance with the regulation of SEBI.
7. The buy back is made out of free reserves (which includes securities premium) or out of the proceeds of a fresh issue of any shares or other specified securities.
8. The buy back is completed within 12 months of the passing of the special resolution or resolution passed by the Board.
9. Before making such buy back, a listed company has to file with the Registrar of the Companies and SEBI a declaration of solvency in the prescribed form.

**Note:** All important conditions have been given in the above answer. However, any four conditions may be given in the answer as required in the question.