Gurukripa's Guideline Answers for Nov 2015 IPCC Exam Questions ADVANCED ACCOUNTING Group – II

Question No.1 is Compulsory. Answer any 5 Questions from the remaining 6 Questions. [Any 4 out of 5 in Q.7]
Wherever appropriate, suitable assumption(s) should be made and indicated in the answer by the Candidates.
Working Notes should form part of the answer.

All Page References given here are from **Padhuka's Students' Handbook on Advanced Accounting–For CA Inter (IPC)**

Question 1(a): AS–11 – Reporting of Monetary Items at B/s Date **5 Marks**

Explain the accounting treatment needed in the following cases as per AS–11 as on 31.03.2015. US $ 1 = ₹ 61.20 on 31.03.2015.

(i) Sundry Debtors include amount receivable from Umesh ₹ 5,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $ 1 = ₹ 58.50.

(ii) Long–Term Loan taken from a US Company, amounting to ₹ 60,00,000. It was recorded at US $ 1 = ₹ 55.60, taking the exchange rate prevailing at the date of transaction.

Solution: **Refer Principles in Page B.3.7, Q.No.18 and Q.No.20, 21 Illustrations**

1. Computation of Gain / (Loss) on Foreign Exchange

Sundry Debtors= Receivable	**Long–Term Loan = Payable**
Transaction Date USD = ₹ 58.50 — Balance Sheet Date 31st March USD = ₹ 61.20	Transaction Date USD = ₹ 55.60 — Balance Sheet Date 31st March USD = ₹ 61.20
Exchange Difference = ₹ 2.7 per USD (**Gain**)	Exchange Difference=₹ 5.6 per USD (**Loss**)
(due to **Reporting**) i.e. $\frac{5,00,000}{58.50} \times 2.7 =$ ₹ **23,077**	(due to **Reporting**) i.e. $\frac{60,00,000}{55.60} \times 5.6 =$ ₹ **6,04,317**
Credited to P&L A/c for the year ending 31st March 2015.	Debited to P&L A/c for year ending 31st March 2015.

2. Disclosure in Balance Sheet: Sundry Debtors & Long Term Loan taken are Monetary Items as per AS–11. At each Balance Sheet date, they should be reported using the **Closing Rate.** The difference in reporting should be recognized in the Statement of Profit and Loss for the current year. The Balances to be shown in the Balance Sheet are –

Sundry Debtors = $\frac{5,00,000}{58.50} \times 61.20 =$ ₹ **5,23,077,** and Long–Term Loan = $\frac{60,00,000}{55.60} \times 61.20 =$ ₹ **66,04,317.**

Question 1(b): AS–19 Operating vs Finance Lease – Evaluation **5 Marks**

Aksat International Limited has given a Machinery on lease for 36 months and its useful life is 60 months. Cost & Fair Market Value of the Machinery is ₹ 5,00,000. The amount will be paid in 3 equal annual instalments and the Lessee will return the Machinery to Lessor at the termination of lease. The Unguaranteed Residual Value at the end of 3 years is ₹ 50,000. IRR of investment is 10% and Present Value of Annuity Factor of ₹ 1 due at the end of 3 years at 10% IRR is 2.4868 and Present Value of ₹ 1 due at the end of 3rd year at 10% IRR is 0.7513.

You are required to comment with reason whether the Lease constitute Finance Lease or Operating Lease. If it is Finance Lease, calculate Unearned Finance Income.

Solution: **Similar to Page. B.6.6, Q.No.17 [RTP, P– M 10, F– M 05 Qn]**

1. Finance vs Operating Lease

Particulars		**₹**
(a) Present Value of Unguaranteed Residual Value (URV)	₹ 50,000 × 0.7513	37,565
(b) Present Value of Lease Payments (PV of MLP)	₹ 5,00,000 – ₹ 37,565	4,62,435
(c) % of PV of MLP to Fair Value	$\frac{₹\ 4,62,435}{₹\ 5,00,000}$	**92.49%**

Conclusion: The Lease Term is 60%, 3/5th of the Asset's Useful Life. Also, the Present Value of Lease Payments is around 92% of the Fair Value, constituting substantial portion of the Fair Value. Therefore, the Lease is a **Finance Lease.**

2. Computation of Unearned Finance Income

	Particulars	₹
	Annual Lease Payments= $\frac{\text{PV of Lease Payments}}{\text{Annuity Factor for 3 years at 10\%}} = \frac{₹\,4,62,435}{2.4868} =$	1,85,956 p.a
	Total Lease Rentals for the Lease Period = ₹ 1,85,956 p.a × 3 years = MLP	5,57,868
	Residual Value	50,000
	Gross Investment in the Lease	6,07,868
Less:	Present Value of MLP & URV = (4,62,435 + 37,565) **(See Note)**	(5,00,000)
	Unearned Finance Income	**1,07,868**

Note: PV of MLP & URV equals the Fair Value / Cost of Equipment at the inception of the lease = ₹ **5,00,000.**

Question 1(c): P&L on Not Going Concern basis **5 Marks**

Balance Sheet of Anurag Trading Co. on 31st March 2014 is given below:

Liabilities	₹	Assets	₹
Capital	50,000	Fixed Assets	69,000
Profit & Loss A/c	22,000	Stock in Trade	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Creditors	18,000	Deferred Expenditure	15,000
		Bank	3,000
Total	1,33,000	Total	1,33,000

Additional Information:

(i) Remaining life of Fixed Assets is 5 years with even use. The Net Realizable Value of Fixed Assets as on 31st March 2015 was ₹ 64,000.

(ii) Firm's Sales and Purchases for the year 2014–2015 amounted to ₹ 5 Lakhs and ₹ 4.50 Lakhs respectively.

(iii) The Cost and Net Realizable Value of the Stock were ₹ 34,000 and ₹ 38,000 respectively.

(iv) General Expenses for the year 2014–2015 were ₹ 16,500.

(v) Deferred Expenditure is normally amortized equally over 4 years starting from F.Y. 2013–2014, i.e. ₹ 5,000 per year.

(vi) Out of Debtors worth ₹ 10,000, collection of ₹ 4,000 depends on successful re–design of certain product already supplied to the customer.

(vii) Closing Trade Payable is ₹ 10,000, which is likely to be settled at 95%.

(viii) There is pre–payment penalty of ₹ 2,000 for Bank Loan Outstanding.

Prepare Profit & Loss Account for the year ended 31st March 2015 by assuming it is not a Going Concern.

Solution: **Refer Principles in Page No.A.1.4, Q.No.13 on Valuation Bases**

Trading and P&L A/c for the year ended 31.03.2015 (not on Going Concern)

Particulars	₹	Particulars	₹
To Opening Stock	36,000	By Sales	5,00,000
To Purchases	4,50,000	By Closing Stock in Trade (at NRV)	38,000
To Gross Profit	**52,000**		
Total	**5,38,000**	**Total**	**5,38,000**
To General Expenses	16,500	By Gross Profit	52,000
To Write–off of Fixed Assets (69,000 – 64,000)	5,000	By Gain on Settlement of Crs (10,000 × 5%)	500
To Deferred Expenditure (fully recognized as Exp)	15,000		
To Debtors not recoverable(assumed no redesign)	4,000		
To Prepayment Penalty on Bank Loan	2,000		
To Net Profit	**10,000**		
Total	**52,500**	**Total**	**52,500**

Question 1(d): AS–16 Forex Differences on Foreign Currency Loans – ASI 10 — 5 Marks

Shan Builders Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2014–2015 for its Residential Project at LIBOR + 3%. The interest is payable at the end of the Financial Year. At the time of the availment, the Exchange Rate was ₹ 56 per US $ and the rate as on 31st March 2015 was ₹ 62 per US $. If Shan Builders Limited borrowed the Loan in India in Indian Rupee equivalent, the pricing of Loan would have been 10.50%. Compute the Borrowing Cost and Exchange Difference for the year ending 31st March 2015 as per applicable Accounting Standard. (Applicable LIBOR is 1%)

Solution: **Similar to Page No.B.5.18, Q.No.42, 43 [F (A/c) – M 12], [P (A/c) – N 13]**

Particulars	Result
1. **Interest Payable if Borrowed in INR =** (USD 10,00,000 x Opening Exchange Rate ₹ 56 x INR Loan Interest Rate 10.50%)	₹ 58,80,000
2. **Interest Actually Paid in Foreign Currency =** Foreign Currency Loan USD 10,00,000 x Closing Exchange Rate ₹ 62 x USD Interest Rate 4%	₹ 24,80,000
3. **Notional Savings in Interest due to Foreign Currency Borrowings =** (1 – 2)	₹ 34,00,000
4. **Change in Carrying Amount of Principal due to Exchange Rate Difference =** (Closing Exchange Rate ₹ 62 **less** Opening Exchange Rate ₹ 56) x USD 10,00,000 **Note:** Since Closing Rate > Opening Rate, there is an Increase in Carrying Amount in this case.	₹ 60,00,000
5. **Further Amount to be treated as Borrowing Cost = Least** of (3) and (4)	₹ 34,00,000
6. **Aggregate Borrowing Cost** as per AS – 16 = Actual Interest as per (2) + Additional in (5)	₹ 58,80,000
7. **Exchange Rate Loss to be Recognized in Statement of P&L = (4 – 5)**	**₹ 26,00,000**

Question 2: Partnership Accounts – Sale to Company, Retirement of a Partner — 16 Marks

Yash, Tanish and Ruchika were Partners sharing Profit & Loss in ratio of 3:2:1. Balance Sheet of the Firm is as follows:

Liabilities		₹	Assets		₹
Fixed Capital:	Yash	50,000	Fixed Assets		45,000
	Tanish	20,000	Investments		15,000
	Ruchika	10,000	Current Assets:	Stock	10,000
Current Accounts:	Yash	6,000		Debtors	27,500
	Ruchika	4,000		Cash & Bank	12,500
Unsecured Loans		15,000	Current Account:	Tanish	10,000
Current Liabilities		15,000			
		1,20,000			1,20,000

On 1st April 2014, all the Partners agreed to form a New Company YTR Pvt. Ltd which shall take over the Firm as going concern including Goodwill, but excluding Cash and Bank Balances. The following matters were also agreed upon:

(i) Goodwill shall be valued at 3 years' purchase of Super Profits.

(ii) Actual profit for the purpose of Goodwill Valuation will be ₹ 20,000.

(iii) The Normal Rate of Return will be 17.50% per annum of Fixed Capital.

(iv) All other Assets and Liabilities will be taken over at Book Value.

(v) The Purchase Consideration will be paid partly in Shares of ₹ 1 each and partly in cash. Yash and Tanish to acquire interest in New Company in the ratio of 3:2 at Face Value. Ruchika agreed at retire after taking her share in cash.

(vi) Realization Expenses amounted to ₹ 5,000.

Prepare Realisation Account, Cash and Bank Account, YTR Private Limited Account and Capital Accounts of the Partners.

Solution: **Similar to Page No.A.2.33, Q.No.20 [M 97, M 04 Qn]**

1. Computation of Goodwill

	Particulars	₹
	Actual Profit	20,000
Less:	Normal Profit = (Fixed Capital ₹ 80,000 × Normal Rate of Return 17.50%)	(14,000)
	Super Profit	**6,000**
	Goodwill = 3 Years' Purchase of Super Profit = ₹ 6,000 × 3 Years	**18,000**
Partner's Share in Goodwill, in PSR 3: 2: 1. So, the amounts are Yash ₹ 9,000, Tanish ₹ 6,000 & Ruchika ₹ 3,000		

2. Computation of Purchase Consideration

	Particulars	₹
	Fixed Assets	45,000
	Investments	15,000
	Stock	10,000
	Debtors	27,500
	Goodwill	18,000
	Total Assets	**1,15,500**
Less:	Unsecured Loans	(15,000)
	Current Liabilities	(15,000)
	Purchase Consideration	**85,500**

3. Realisation Account

Particulars	₹	Particulars		₹
To Sundry Assets A/c (transfer)		By Unsecured Loan A/c (transfer)		15,000
– Fixed Assets	45,000	By Current Liabilities A/c (transfer)		15,000
– Investments	15,000	By YTR (P) Ltd (Purchase Consideration)		85,500
– Stock	10,000	By Loss on Realisation: (trfd in 3:2:1)		
– Sundry Debtors	27,500	– Yash	2,500	
To Bank A/c (Realisation Expenses)	5,000	– Tanish	1,667	
To Goodwill A/c	18,000	– Ruchika	833	**5,000**
Total	**1,20,500**	**Total**		**1,20,500**

4. Partners' Capital Account

Particulars	Yash	Tanish	Ruchika	Particulars	Yash	Tanish	Ruchika
To Current A/c	–	10,000	–	By balance b/d	50,000	20,000	10,000
To Realisation A/c	2,500	1,667	833	By Current A/c	6,000	–	4,000
To Cash **(bal. fig.)**	–	–	**16,167**	By Goodwill A/c **(WN 1)**	9,000	6,000	3,000
To Tanish Capital **(Note)**	16,400	–	–	By Yash Capital (**Note**)	–	16,400	–
To YTR (P) Ltd**(Note)**	46,100	30,733	–				
Total	**65,000**	**42,400**	**17,000**	**Total**	**65,000**	**42,400**	**17,000**

Note: The amount of ₹ 16,400 represents amount payable by Tanish to Yash on dissolution so that their entitlement in the new Company, i.e. YTR (P) Ltd is in the ratio of 3:2. This amount can be obtained as bal.fig, after completing WN 6 and transferring the Shares in YTR Ltd to Yash Capital and Tanish Capital A/cs.

5. Cash and Bank Account

Receipts	₹	Payments	₹
To balance b/d	12,500	By Realisation A/c (Expenses)	5,000
To YTR (P) Ltd **(balancing figure)**	**8,667**	By Ruchika Capital A/c	16,167
Total	**21,167**	**Total**	**21,167**

6. YTR (P) Ltd Account

Particulars	₹	Particulars			₹
To Realisation A/c (Purc. Consideration Due)	85,500	By Cash **(WN 5)**			8,667
		To Shares in YTR (P) Ltd **(bal. fig.)**			
		– Yash	(76,833 × 3/5)	46,100	
		– Tanish	(76,833 × 2/5)	30,733	**76,833**
Total	**85,500**	**Total**			**85,500**

Question 3(a): Accounting for Employee Stock Options – Vesting Period > 1 Year **8 Marks**

P Ltd granted option for 8000 Equity Shares on 1st October 2010 at ₹ 80 when the Market Price was ₹ 170. The vesting period is 4½ years. 4,000 unvested options lapsed on 1st December 2012. 3,000 options are exercised on 30th September 2014 and 1,000 vested options lapsed at the end of the exercise period. Pass Journal Entries for above transactions.

Solution: **Similar Page No.A.3.31, Q. No. 17**

1. Computation of Expense to be recognised (Vesting Period = 4½ years)

Particulars	Result
(a) **Fair Value of Option per Share =** MPS on Grant Date ₹ 170 **less** Exercise Price ₹ 80	**₹ 90**
(b) No. of Shares vesting under the Scheme = given	8,000 Shares
(c) Total Fair Value of Options (a×b) to be recognised as Expense in 4½ years on straight–line basis	₹ 7,20,000
(d) Expense to be recognised for Year 1 (01.10.2010 to 31.03.2011) (Half year) ₹ 80,000 for Year 2 (01.04.2011 to 31.03.2012) (full year) ₹ 1,60,000 for Year 3 (01.04.2012 to 31.03.2013) (full year) ₹ 1,60,000 for Year 4 (01.04.2013 to 31.03.2014) (full year) ₹ 1,60,000 for Year 5 (01.04.2014 to 31.03.2015) (full year) ₹ 1,60,000	
(e) Value of Active Options (after lapse of 4,000 Options) as on 31.03.2013 = 4,000 × ₹ 90	₹ 3,60,000
(f) Cum. Balance in ESOS O/s A/c at end of Yr 3 = ₹ 80,000 + ₹ 1,60,000 + ₹ 1,60,000.	₹ 4,00,000
(g) Hence, Excess Expenses to be reversed by transfer to General Reserve at the end of Year 3 (f–e)	₹ 40,000

Note: **Value of Option:** Intrinsic Value = MPS on Grant Date **Less** Exercise Price = ₹ 170 – ₹ 80 = ₹ 90.

2.Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
Year 1			
31.03.2011 (yr–end)	Employee Compensation Expense A/c Dr. To Employee Stock Options Outstanding A/c (Being Compensation Expense recognized in respect of the Employee Stock Option Plan, i.e. 8,000 Options granted to Employees at a discount of ₹ 90 each, amortized on Straight Line Basis over 4 ½ Years = 8,000 × ₹ 20 × 6/12 [₹ 90 ÷ 4.5 = ₹ 20])	80,000	80,000
31.03.2011 (yr–end)	Profit and Loss A/c Dr. To Employee Compensation Expense A/c (Being transfer of Employee Compensation Expense to P & L A/c at year–end)	80,000	80,000
Year 2			
31.03.2012 (yr–end)	Employee Compensation Expense A/c Dr. To Employee Stock Options Outstanding A/c (Being Compensation Expense recognized in respect of the Employee Stock Option Plan, i.e. 8,000 Options granted to Employees at a discount of ₹ 90 each, amortized on Straight Line Basis over 4 ½ Years = 8,000 × ₹ 20 [₹ 90 ÷ 4.5 = ₹ 20])	1,60,000	1,60,000
31.03.2012 (yr–end)	Profit and Loss A/c Dr. To Employee Compensation Expense A/c (Being transfer of Employee Compensation Expense to P & L A/c at year–end)	1,60,000	1,60,000
Year 3			
31.03.2013 (yr–end)	Employee Compensation Expense A/c Dr. To Employee Stock Options Outstanding A/c (Being Compensation Expense recognized in respect of the Employee Stock Option Plan, i.e. 8,000 Options granted to Employees at a discount of ₹ 90 each, amortized on Straight Line Basis over 4 ½ Years = 8,000 × ₹ 20 [₹ 90 ÷ 4.5 = ₹ 20])	1,60,000	1,60,000
31.03.2013 (yr–end)	Profit and Loss A/c Dr. To Employee Compensation Expense A/c (Being transfer of Employee Compensation Expense to P&L at year–end)	1,60,000	1,60,000
31.03.2013 (yr–end)	Employee Stock Options Outstanding A/c **(WN 1g)** Dr. To General Reserve A/c (Being excess of Employees Compensation Exp. transferred to General Reserve A/c)	40,000	40,000
Year 4 30.09.2014	No Expense Entry is required, since the Value of 4000 Options Outstanding is already accumulated in the ESOP A/c (Cr.), over the first three years itself.		

Date	Particulars		Dr. (₹)	Cr. (₹)
Year 5				
30.09.2014 (Date of exercise of Option)	Bank A/c (3,000 Options × ₹ 80) Employee Stock Options Outstanding A/c (3,000 Options × ₹ 90) To Equity Share Capital A/c (3,000 Options × ₹ 10) To Securities Premium A/c (3,000 Options × ₹ 160) (Being 3,000 Employee Stock Options exercised at an Exercise Price of ₹ 80 each)	Dr. Dr.	2,40,000 2,70,000	 30,000 4,80,000
31.03.2015 (End of Exercise Period)	Employee Stock Option Outstanding A/c (1,000 Options × ₹ 90) To General Reserve A/c (Being ESOS Outstanding A/c on the lapse of 1,000 Options at the end of exercise of Option period, transferred to General Reserve A/c)	Dr.	90,000	 90,000

Question 3(b): Underwriting – Liability of Underwriters **8 Marks**

Saurav Flour Mills Pvt Ltd floated a Public Issue of ₹ 1,50,000 Equity Shares having Face Value of ₹ 10 each at par. A, B & C has taken underwriting of the issue in equal shares, with Firm Underwriting of 25,000, 20,000 & 20,000 Shares respectively.

Applications were received for 1,46,000 Shares out of which the Marked Applications were as under:

A – 24,600	B – 20,000	C – 15,000

Credit of Unmarked Applications is to be given to Underwriters equally. The agreed Underwriting Commission was 5%. Total amount payable on application and allotment was ₹ 5 and balance in calls.

Compute the following:

(i) Liability of each Underwriter (In Shares as well as in amount).

(ii) Commission due to Underwriters.

(iii) Net Cash paid / received from Underwriters

Also pass Journal Entries for above.

Solution: **Similar to Page No.A.3.51, Q.No.13 to 17 [N 87, M 90, M 01, N 05, N 12, M 13 Qn]**

Note: It is assumed that the **Total Applications** 1,46,000 Shares include Marked Applications, Unmarked Applications and **Firm Underwriting** also. So, Balance Unmarked Applications = 1,46,000 (–) Marked 59,600 (–) Firm 65,000 = 21,400

1. Underwriters' Liability [No. of Shares] and Amount due from Underwriters

	Particulars	A	B	C	Total
	Gross Liability	50,000	50,000	50,000	1,50,000
Less:	Marked Applications	(24,600)	(20,000)	(15,000)	(59,600)
Less:	Unmarked Applications (See **Note** above)	(7,133)	(7,133)	(7,134)	(21,400)
Less:	Firm Underwriting	(25,000)	(20,000)	(20,000)	(65,000)
	Net Liability under the Contract	(6,733)	2,867	7,866	4,000
Adjust:	Surplus of A transferred to B and C equally	6,733	(3,367)	(3,366)	Nil
	Net Balance	Nil	(500)	4,500	4,000
Adjust:	Surplus of B transferred to C	Nil	500	(500)	Nil
	Balance to be underwritten = Net Liability	Nil	Nil	4,000	4,000
Add:	Firm Underwriting	25,000	20,000	20,000	65,000
	Total Liability=Shares to be taken up by Underwriters	**25,000**	**20,000**	**24,000**	**69,000**
	Amount Due to Company at ₹ 5 per Share on Net Liability (₹)	Nil	Nil	20,000	20,000
Less:	Commission due to Underwriters [Gross Liability×₹10×5%)] (₹)	(25,000)	(25,000)	(25,000)	(75,000)
	Amount Receivable / (Payable) (₹)	**(25,000)**	**(25,000)**	**(5,000)**	**(55,000)**

Note: Amount due to Company is taken at ₹ 5 per Share for the Net Liability taken up by the Underwriters (for C only). This is because the Underwriters would already have applied for Firm Shares along with the Application Money due thereon. Alternatively, Amount due to Company may be also computed for the Total Liability by assuming that the Underwriters are yet to pay the amount on their Firm Shares applied for.

2. Journal Entries in the books of the Company

	Particulars		Dr. (₹)	Cr. (₹)
1.	Bank A/c	Dr.	7,30,000	
	To Equity Share Application and Allotment A/c			7,30,000
	(Being amount received on 1,46,000 Shares at ₹ 5 per Share, including Firm Underwriting 25,000, 20,000 and 20,000 from A, B and C Underwriters)			
2.	C A/c	Dr.	20,000	
	To Equity Share Application and Allotment A/c			20,000
	(Being amount due from Underwriter C on Net Liability of 4,000 Shares at ₹ 5)			
3.	Underwriting Commission A/c	Dr.	75,000	
	To A A/c			25,000
	To B A/c			25,000
	To C A/c			25,000
	(Being Underwriting Commission on the Shares underwritten)			
4.	Equity Share Application and Allotment A/c	Dr.	7,50,000	
	To Equity Share Capital A/c			7,50,000
	(Being allotment of Shares, including Firm Underwriting Shares)			
5.	A A/c	Dr.	25,000	
	B A/c	Dr.	25,000	
	C A/c	Dr.	5,000	
	To Bank A/c			55,000
	(Being balance paid to Underwriters)			

Question 4: Internal Reconstruction **16 Marks**

The following is the Balance Sheet of Star Ltd as on 31st March 2015:

			₹
A. Equity & Liabilities:			
1. Shareholders' Fund:			
(a) Share Capital:	**9,000 7% Preference Shares of ₹ 100 each fully paid**		**9,00,000**
	10,000 Equity Shares of ₹ 100 each fully paid		**10,00,000**
(b) Reserves & Surplus:	**Profit & Loss Account**		**(2,00,000)**
2. Non–Current Liabilities:	**"A" 6% Debentures (Secured on Bombay Works)**		**3,00,000**
	"B" 6% Debentures (Secured on Chennai Works)		**3,50,000**
3. Current Liabilities and Provisions:			
(a) Workmen's Compensation Fund:		**Bombay Works**	**10,000**
		Chennai Works	**5,000**
(b) Trade Payables			**1,25,000**
	Total		**24,90,000**
B. Assets:			
1. Non–Current Assets:	**Tangible Assets:**		
		Bombay Works:	**9,50,000**
		Chennai Works	**7,75,000**
2. Investments:	**Investments for Workman's Compensation Fund**		**15,000**
3. Current Assets:			
(a) Inventories			**4,50,000**
(b) Trade Receivables			**2,50,000**
(c) Cash at Bank			**50,000**
	Total		**24,90,000**

A Reconstruction Scheme was prepare and duly approved. The salient features of the Scheme were as follows:

(i) Paid Up Value of 8% Preference Shares to be reduced to ₹ 80, but the Rate of Dividend being raised at 9%.

(ii) Paid Up Value Equity Shares to be reduced to ₹ 10.

(iii) The Directors to refund ₹ 50,000 of the Fees previously received by them.

(iv) Debenture Holders to forego their Interest of ₹ 26,000 which is included among the Sundry Creditors.

(v) Preference Shareholders agreed to waive their claims for Preference Share Dividend, which is in arrears for the last 3 years.

(vi) "B" 6% Debentureholders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 Equity Shares of ₹ 10 each at par, and upon their forming a Company called Zia Ltd (to take over the Chennai Works), they allotted 9,000 Equity Shares of ₹ 10 each fully paid at par to Star Ltd.

(vii) The Chennai Worksmen Compensation Fund disclosed that there were actual liabilities of ₹ 1,000 only. As a consequence, the Investments of the Fund were realized to the extent of the balance. Entire Investments were sold at a Profit of 10% on Book Value and the proceeds were utilized for part payment of the Creditors.

(viii) Stock was to be written off by ₹ 1,90,000 and a Provision for Doubtful Debts is to be made to the extent of ₹ 20,000.

(ix) Chennai Works completely written off.

(x) Any balance of the Capital Reduction Account is to be applied as two–thirds to write off the value of Bombay Works and one–third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd after the Scheme has been carried into effect.

Solution: **Refer Principles in Various Illustrations in Chapter 4**

1. Journal Entries in the Books of the Company

S.No.	Particulars		Dr. (₹)	Cr. (₹)
1.	7% Preference Share Capital (₹ 100 paid up) A/c	Dr.	9,00,000	
	To 9% Preference Share Capital (₹ 80 paid up) A/c (9,000 × 80)			7,20,000
	To Capital Reduction A/c			1,80,000
	(Being 9,000 7% Pref. Shares of ₹ 100 reduced to 9% Pref. Shares of ₹ 80 Paid up and balance amount transferred to Reconstruction A/c vide approved Reconstruction Scheme dated……)			
2.	Equity Share Capital (₹ 100 paid up) A/c	Dr.	10,00,000	
	To Equity Share Capital (₹ 10 paid up) A/c			1,00,000
	To Capital Reduction A/c			9,00,000
	(Being the reduction of Equity Shares of ₹ 100 each to Shares of ₹ 10 Paid up, as per approved Reconstruction Scheme)			
3.	Cash / Bank A/c	Dr.	50,000	
	To Capital Reduction A/c			50,000
	(Being Refund of Fees by Directors received back by Company.)			
4.	Trade Payables A/c	Dr.	26,000	
	To Capital Reduction A/c			26,000
	(Being Interest foregone by Debenture Holders, which is included among the Sundry Creditors)			
5.	No Journal Entry for Preference Shareholders to waive their claims for Arrears of Preference Share Dividend		–	–
6.	'B' 6% Debentures A/c	Dr.	3,50,000	
	Capital Reduction A/c (balancing figure)	Dr.	90,000	
	To Chennai Works A/c (agreed value of takeover)			4,25,000
	To Equity Share Capital A/c (1,500 × ₹ 10 paid up)			15,000
	(Being 'B' 6% Debentures settled by Chennai Works and allotment of 1500 Equity Shares of ₹ 10 each)			
7.	Equity Shares of Zia Ltd A/c (9,000 × ₹ 10)	Dr.	90,000	
	To Capital Reduction A/c			90,000
	(Being 9,000 Equity Shares of ₹ 10 each allotted by Zia Ltd)			
8.	Bank A/c	Dr.	4,400	
	To Investment for Workmen Compensation Fund A/c (Chennai)			4,000
	To Capital Reduction A/c (4,000 × 10%)			400
	(Being Workmen Compensation Fund Investments realized for Chennai Works portion, and proceeds are utilized to settle Trade Payables) [**Note:** Assumed that Bombay Works Fund and Investment are retained as such for ₹ 10,000]			

S.No.	Particulars		Dr. (₹)	Cr. (₹)
9.	Trade Payables	Dr.	4,400	
	To Bank A/c			4,400
	(Being Part Payment of Trade Payables out of Investment Proceeds.)			
10.	Capital Reduction A/c	Dr.	7,60,000	
	To Stock A/c			1,90,000
	To Provision for Doubtful Debts A/c			20,000
	To Chennai Works A/c (B/s Value 7,75,000 – Takeover 4,25,000)			3,50,000
	To Profit and Loss A/c			2,00,000
	(Being Stock, Provision for Doubtful Debts , Chennai Works Balance, Profit and Loss Account written off out of Capital Reduction / Reconstruction A/c)			
10.	Capital Reduction A/c	Dr.	3,96,400	
	To Bombay Works A/c			2,64,267
	To Capital Reserve Ac			1,32,133
	(Being Balance in Capital Reduction A/c is applied as 2/3rd to write off the value of Bombay Works and 1/3rd is transferred to Capital Reserve.)			

2. Capital Reduction Account

Particulars	₹	Particulars	₹
To Chennai Works/B Debentures A/c	90,000	By 8% Preference Share Capital A/c	1,80,000
To Stock A/c	1,90,000	By Equity Share Capital (₹ 100) A/c	9,00,000
To Provision for Doubtful Debts A/c	20,000	By Cash A/c	50,000
To Chennai Works A/c(7,75,000 –4,25,000)	3,50,000	By Trade Payables A/c	26,000
To Profit & Loss A/c	2,00,000	By Equity Shares of Zia Ltd A/c (9,000 × ₹ 10)	90,000
To Bombay Works A/c (b/f)	**2,64,267**	By Bank (Gain on Sale of Investments)	400
To Capital Reserve A/c (b/f)	**1,32,133**		
Total	**55,00,000**	**Total**	**12,46,400**

Question 5(a): Insurance Companies – Marine Insurance – Revenue Account **12 Marks**

Prepare Revenue Account of M/s Ishan Insurance Co. engaged in Marine Insurance Business:

Particulars		Direct Business (₹)	Re–Insurance (₹)
I. Premium:			
Received		3,60,000	38,000
Receivable	– 1st April 2014	10,000	1,600
	– 31st March 2015	16,000	1,800
Premium Paid		–	24,000
Premium Payable	– 1st April 2014	–	1,000
	– 31st March 2015	–	2,200
II. Claims:			
Paid		1,54,000	14,000
Payable	– 1st April 2014	78,000	1,500
	– 31st March 2015	16,000	4,200
Received		–	17,000
Receivable	– 1st April 2014	–	1,400
	– 31st March 2015	–	1,900
III. Commission:			
On Insurance accepted		96,000	5,600
On Insurance ceded		–	8,000

Details of Other Expenses & Income are as below:	₹
Establishment Expenses	30,000
Rent, Rates & Taxes	14,000
Printing & Stationery	1,800

Details of Other Expenses & Income are as below:	₹
Income Tax Paid	10,000
Income from Dividend	18,000
Legal Expenses (Inclusive of ₹ 1,200 in connection with settlement of Claims)	2,000
Double Income Tax Refund	24,000
Bad Debts	1,300
Profit on Sale of Furniture	700

Balance of Fund as on 1st April 2014 was ₹ 7,65,000 including Additional Reserve of ₹ 33,000. Additional Reserve is to be created @ 5% of the Net Premium of the year.

Solution: **Similar to Page No.A.8.58, Q.No.18 [M 88, N 02 Qn]**

1. Form–B–RA – Revenue Account for the year ending 31st March 2015

	Particulars	Sch.	This Yr	Last Yr
	Premium Earned (Net)	1	7,46,050	
	Total (A)		**7,46,050**	
1.	Claims Incurred (Net)	2	92,400	
2.	Commission	3	93,600	
3.	Operating Expenses related to Insurance Business	4	46,600	
	Total (B)		**2,32,600**	
	Operating Profit / (Loss) from Marine Insurance Business (A – B)		**5,13,450**	
	Appropriations		**NIL**	
	Total (C)		**5,13,450**	

Note: IT paid, Income from Dividend, IT Refund, Bad Debts & Profit on Sale of Furniture are **not** directly related to Insurance Business and hence not disclosed in Revenue A/c.

Schedule 1 –Premium Earned (Net)

	Particulars	This Yr
	Premium on Direct Business (Recd 3,60,000 + Due at end 16,000 – Due at opg 10,000)	3,66,000
Add:	Premium on Re–Insurance Accepted (Recd 38,000 + Due at end 1,800 – Due at opg 1,600)	38,200
Less:	Premium on Re–Insurance Ceded (Paid 24,000 + Due at end 2,200 – Due at opg 1,000)	(25,200)
	Net Premium	**3,79,000**
Adjust:	Adjustment for change in Unexpired Risk Reserve **(Note)**	3,53,000
Adjust:	Adjustment for change in Additional Reserve **(Note)**	14,050
	Premium Earned (Net)	**7,46,050**

Note: Adjustment for Changes in Reserve for Unexpired Risks is computed as under –

	Particulars	Reserve	Addnl Reserve
	Closing Balance required	100% of 3,79,000=3,79,000	5% of 3,79,000 = 18,950
Less:	Opening Balance available	7,65,000 – 33,000= 7,32,000	Given 33,000
	Amt to be transferred to /(from) Reserve for the year	**(3,53,000)**	**(14,050)**

Schedule 2 – Claims Paid (Net)

	Particulars			This Yr
	Claims Paid	Direct	(Paid 1,54,000 + Legal Exps 1,200)	1,55,200
Add:	Re–Insurance Accepted		(Paid)	14,000
Less:	Re–Insurance Ceded		(Recd)	(17,000)
	Net Claims Paid			**1,52,200**
Add:	Claims Outstanding at the end of the year (Direct 16,000 + On Re–Insurance Accepted 4,200 (**less**) On Re–Insurance Ceded 1,900)			18,300
Less:	Claims Outstanding at the beginning of the year (Direct 78,000 + On Re–Insurance Accepted 1,500 (**less**) On Re–Insurance Ceded 1,400)			(78,100)
	Total Claims Incurred			**92,400**

Schedule 3 – Commission

	Particulars	This Yr	Last Yr
	Commission Paid – Direct	96,000	
Add:	Re–Insurance Accepted	5,600	
Less:	Commission on Re–Insurance ceded	(8,000)	
	Net Commission	**93,600**	

Schedule 4 – Operating Expenses related to Insurance Business

	Particulars	This Yr	Last Yr
1.	Employees Remuneration and Welfare Benefits – Salary	30,000	
2.	Rent, Rates and Taxes	14,000	
3.	Printing and Stationery	1,800	
4.	Legal and Professional Charges (2,000 – Claims related 1,200)	800	
	Total	**46,600**	

Question 5(b): Banking Companies – Rebate on Bills Discounted **4 Marks**

ABC Bank Ltd has a balance of ₹ 40 Crores in "Rebate on Bills Discounted" Account as on 31st March 2014. The Bank provides you the following information:

(i) During the Financial Year ending 31st March 2015, ABC Bank Ltd discounted Bills of Exchange of ₹ 5,000 Crores charging interest @ 14% and the average period of discount being 146 days.

(ii) Bills of Exchange of ₹ 500 Crores were due for realization from the Acceptors / Customers after 31st March 2015. The average period of outstanding after 31st March 2015 being 73 days. These Bills of Exchange of ₹ 500 Crores were discounted charging interest @ 14% p.a.

You are requested to pass necessary Journal Entries in the books of ABC Bank Ltd for the above transactions.

Solution: **Similar to Page No.A.7.39, Q.No.6 [N 10 Qn]**

Journal Entries in the Books of ABC Bank Ltd (₹ in Crores)

S No	Particulars		Dr.	Cr.
1.	Rebate on Bill Discounted A/c To Discount Received A/c (Being transfer of Opening Balance in Rebate A/c, to Discount Received)	Dr.	40	 40
2.	Bills Purchased A/c To Discount Received A/c (₹ 5,000 Crores × 14% × $\frac{146}{365}$) To Customer A/c **(balancing figure)** (Being Bills Discounted during the year)	Dr.	5,000	 280 **4,720**
3.	Discount Received A/c To Rebate on Bills Discounted A/c (₹ 500 Crores × 14% × $\frac{73}{365}$) (Being Provision for Unexpired Discount Charges as on 31.03.2015)	Dr.	14	 14
4.	Discount Received A/c (40 + 280 – 14) To Profit and Loss A/c (Being transfer of Discount Income net after adjustment)	Dr.	306	 306

Question 6(a): Branch Accounts **12 Marks**

Raju Industries, Kolkata has a Branch in Delhi to which office goods are invoiced at Cost plus 25%. The Branch sells both for cash and on credit. Branch Expenses are paid direct from Head Office, and Branch has to remit all cash received to the Head Office Bank Account.

From the following details, relating to calendar year 2014, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office.

Particulars	₹
Goods received from Head Office at Invoice Price	**6,00,000**
Returns to Head Office at Invoice Price	**12,000**
Stock at Delhi as on 1st January 2014	**60,000**
Sales during the year – Cash	**1,80,000**
– Credit	**3,80,000**
Sundry Debtors at Delhi as on 1st January 2014	**72,000**
Discount allowed to Debtors	**8,000**
Bad Debts in the year	**6,000**
Sales Returns at Delhi Branch	**6,000**
Rent, Rates, Taxes at Branch	**16,000**
Salaries, Wages, Bonus at Branch	**62,000**
Office Expenses	**6,000**
Stock at Branch on 31st December 2014	**1,20,000**

Solution: **Similar to Page No.A.1.59, Q.No.17 [M 10 Qn]**

Delhi Branch Account in the books of Head Office

Particulars	₹	Particulars	₹
To balance b/d		By Stock Reserve on Opg Stk (60,000 × $\frac{25}{125}$)	12,000
– Stock	60,000		
– Debtors	72,000	By Cash (Sales)	1,80,000
To Goods sent to Branch A/c (Goods sent)	6,00,000	By Goods sent to Branch	1,20,000
To Goods sent to Branch A/c			
(Loading reversed on Returns = 12,000 × $\frac{25}{125}$)	2,400	(Loading Removal = 6,00,000 × $\frac{25}{125}$)	
To Cash A/c		By Goods sent to Branch (Returns to HO)	12,000
– Salaries and Wages	62,000	By balance c/d	
– Rent & Rates and Taxes	16,000	– Stock	1,20,000
– Office Expenses	6,000	– Debtors **(WN)**	4,32,000
To Stock Reserve on Clg Stk (1,20,000 × $\frac{25}{125}$)	24,000		
To P & L A/c – Profit tfr **(balancing figure)**	**33,600**		
Total	**8,76,000**	**Total**	**8,76,000**

Working Notes: **Memorandum Branch Debtors Account** (to ascertain Closing Balance)

Particulars	₹	Particulars	₹
To balance b/d	72,000	By Discount Allowed	8,000
To Sales	3,80,000	By Bad Debts	6,000
		By Sales Returns	6,000
		By balance c/d **(balancing figure)**	**4,32,000**
Total	**4,52,000**	**Total**	**4,52,000**

Question 6(b): Department Accounts **4 Marks**

Sona Ltd has three Departments – P, Q and R. From the following particulars given below, compute:

(i) The Departmental Results, and (ii) The Value of Stock as on 31st December 2014.

Particulars	P	Q	R
Stock as on 01.01.2014	**30,000**	**45,000**	**15,000**
Purchases	**1,60,000**	**1,30,000**	**60,000**
Actual Sales	**1,88,000**	**1,66,000**	**93,000**
Gross Profit on Normal Sales Price	**25%**	**$33\frac{1}{3}$%**	**40%**

During the year 2014 some items were sold at discount and these discounts were reflected in the above Sales Value. The details are given below:

Particulars	P	Q	R
Sales at Normal Price	15,000	8,000	6,000
Sales at Actual Price	11,000	6,000	4,000

Solution: **Similar to Page No.A.1.11, Q.No.5 [RTP, M 12 Qn]**

1. Computation of Cost of Goods Sold

	Particulars		P		Q		R
	Sales at Actual Price		1,88,000		1,66,000		93,000
Less:	Sales at Discounted Price		(11,000)		(6,000)		(4,000)
	Net Sales at Normal Price		1,77,000		1,60,000		89,000
Add:	Normal Value of Discounted Sales		15,000		8,000		6,000
	Total Sales at Normal Selling Price	100%	1,92,000	100%	1,68,000	100%	95,000
Less:	GP on Normal Selling Price	25%	(48,000)	33.33%	(56,000)	40%	(38,000)
	Total Cost of Goods Sold	**75%**	**1,44,000**	**66.67%**	**1,12,000**	**60%**	**57,000**

2. Computation of Value of Closing Stock

	Particulars	P	Q	R
	Opening Stock	30,000	45,000	15,000
Add:	Purchases	1,60,000	1,30,000	60,000
		1,90,000	1,75,000	75,000
Less:	Cost of Goods Sold **(WN 1)**	(1,44,000)	(1,12,000)	(57,000)
	Closing Stock	**46,000**	**63,000**	**18,000**

3. Departmental Trading and Profit and Loss A/c for the year ending 31st December 2014 (in ₹)

Particulars	P	Q	R	Particulars	P	Q	R
To Opening Stock	30,000	45,000	15,000	By Sales	1,88,000	1,66,000	93,000
To Purchases	1,60,000	1,30,000	60,000	By Closing Stock	46,000	63,000	18,000
To Gross Profit	**44,00**	**54,000**	**36,000**	**(WN 2)**			
Total	**2,34,000**	**2,29,000**	**1,11,000**	**Total**	**2,34,000**	**2,29,000**	**1,11,000**

Question 7(a): AS–20 WANES **4 Marks**

What do you mean by "Weighted Average Number of Equity Shares Outstanding during the period" and why is it required to be calculated? Compute Weighted Average Number of Equity Shares in the following case:

		No. of Shares
1st April 2014	Balance of Equity Shares	5,00,000
30th June 2014	Equity Shares issued for Cash	1,00,000
15th January 2015	Equity Shares bought back	50,000
31st March 2015	Balance of Equity Shares	5,50,000

Solution: **Similar to Page B.7.6, Q.No.12, 14 [M 09, M 12 Qn]**

Computation of Weighted Average Number of Equity Shares Outstanding at the end of the Period

Date	No. of Equity Shares	Period Outstanding (Upto 31st Mar)	Time Weighting Factor	Weighted Average Number of Shares
(1)	**(2)**	**(4)**	**(5)**	**(6) = (2) × (3) × (5)**
01.04.2014	5,00,000	12	12/12	5,00,000
30.06.2014	1,00,000	9	9/12	75,000
15.01.2015	50,000	2.5	2.5/12	(10,417)
Weighted Average Number of Equity Shares Outstanding at the end of the Period				**5,64,583**

Question 7(b): Liquidation – Theory **4 Marks**

What are the contents of "Liquidators' Statement of Account"?

Refer Page A.6.5, Point 4, Q.No.12

Question 7(c): Banking Companies – Theory **4 Marks**

Specify the conditions when Cash Credit Overdraft Account is treated as "Out of Order"?

Refer Page A.7.25, Q.No.32

Question 7(d): Liquidation – Theory **4 Marks**

Write the LISTS which should accompany the Statement of Affairs, in case of a winding up by Court.

Refer Page A.6.2, Q.No.5

Question 7(e): Branch Accounts – Journal Entries **4 Marks**

Pass necessary Journal Entries (with narration) in the books of Branch to rectify or adjust the following:

(i) Branch Paid ₹ 24,000 as Salary to HO Supervisor and the amount was debited to Salaries Account by the Branch.

(ii) Head Office Expenses allocated to Branch were ₹ 22,500, but these expenditure were not recorded by the Branch.

(iii) HO collected ₹ 50,000 directly from the Customer on Branch's behalf.

(iv) Branch has sent remittance of ₹ 1,20,000 but the same has not year been received by HO.

Solution: **Similar to Page A.1.39, Q.No.3 [M 14 Qn]**

Journal Entries in the books of Branch

S.No.	Particulars	Dr. (₹)	Cr. (₹)
1.	Head Office A/c Dr. To Salaries A/c (Being the Salary paid on behalf of HO to the HO Manager)	24,000	24,000
2.	Expenses A/c Dr. To Head Office A/c (Being the Expenses allocated by the Head Office, recorded in Branch books)	22,500	22,500
3.	Head Office A/c Dr. To Debtors A/c (Being the adjustment of collection by HO directly from Branch Debtors)	50,000	50,000
4.	No Journal Entry is required in Branch Books, for the remittance of Branch not recorded in the books of HO. It should be recorded as Remittances in Transit in HO Books.	–	–

STUDENTS' NOTES

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