PAPER – 1 : ADVANCED ACCOUNTING

QUESTIONS

Cash Flow Statement

1. From the following Balance Sheets of Mr. Shyam, prepare a Cash Flow Statement as per AS 3 for the year ended 31.3.2010:

Balance Sheets of Mr. Shyam

	As on 1.4.2009	As on 31.3.2010
	Rs.	Rs.
Liabilities:		
Shyam's Capital Account	5,00,000	6,12,000
Sundry creditors	1,60,000	1,76,000
Mrs. Shyam's loan	1,00,000	--
Long term loan from bank	1,60,000	2,00,000
	9,20,000	9,88,000
Assets:		
Land	3,00,000	4,40,000
Plant and Machinery	3,20,000	2,20,000
Stock	1,40,000	1,00,000
Debtors	1,20,000	2,00,000
Cash	40,000	28,000
	9,20,000	9,88,000

Additional information:

A machine costing Rs.40,000 (accumulated depreciation thereon Rs.12,000) was sold for Rs.20,000. The provision for depreciation on 1.4.2009 was Rs.1,00,000 and on 31.3.2010 was Rs.1,60,000. The net profit for the year ended on 31.3.2010 was Rs.1,80,000.

Accounting for Bonus Issue

2. Following is the extract of the Balance Sheet of Omega Ltd., a listed company as at March 31, 2010:

	Rs.
Authorised Capital:	
40,000, 12% Preference shares of Rs.10 each	4,00,000
4,00,000, Equity shares of Rs.10 each	40,00,000
	44,00,000

Issued and Subscribed Capital:	
32,000, 12% Preference shares of Rs.10 each fully paid	3,20,000
3,60,000 Equity shares of Rs.10 each fully paid-up	36,00,000
Reserves and Surplus:	
Revaluation reserves	80,000
General reserve	5,00,000
Capital reserve	3,00,000
Securities premium	1,00,000
Profit & Loss (Cr.)	7,00,000
Secured Loan:	
12% Partly convertible debentures @ Rs.100 each	20,00,000

On April 30, 2010, the company decided to capitalise its reserves by way of Bonus at the rate 1:4. Securities premium of Rs.1,00,000 includes a premium of Rs.20,000 for shares issued pursuant to a scheme of amalgamation. Capital reserve includes Rs.1,60,000, being profit on sale of Plant and Machinery. 20% of 12% Debentures are convertible into Equity shares of Rs.10 each fully paid on April 30, 2010.

State with reason on the following:

(i) Whether Revaluation Reserve be capitalised?

(ii) How much amount of Capital reserve can be capitalised?

(iii) How much amount of 'Securities Premium A/c' can be capitalised?

(iv) Are the convertible debentureholders entitled to Bonus shares?

(v) The minimum number of Equity shares to be issued by way of Bonus as on 30th April, 2010.

(vi) What should be the minimum amount of authorised capital, if the decision to issue Bonus shares gets implemented?

Amalgamation of Companies

3. The following are the Balance Sheets of A Ltd. and B Ltd. as on 31.3.2010:

	(Rs. in thousands)	
Liabilities	A Ltd.	B Ltd.
Share capital:		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	800	---
10% Debentures	500	---

Loans from Banks	250	450
Bank overdrafts	---	50
Sundry creditors	300	300
Proposed dividend	200	---
Total	4,050	1,800
Assets		
Tangible assets/fixed assets	2,700	850
Investments (including investments in B Ltd.)	700	---
Sundry debtors	400	150
Cash at bank	250	---
Accumulated loss	---	800
Total	4,050	1,800

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of Rs.60 thousands of B Ltd.

(ii) B Ltd. will reduce its shares to Rs.10 per share and then consolidate 10 such shares into one share of Rs.100 each (new share).

(iii) Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.

(iv) Proposed dividend of A Ltd. will be paid after merger to shareholders of A Ltd.

(v) Sundry creditors of B Ltd. includes Rs.100 thousands payable to A Ltd.

(vi) A Ltd. will cancel 20% holding in B Ltd. as investment, which was held at a cost of Rs.250 thousands.

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger.

Liquidator's Statement of Account

4. The summarised Balance Sheet of Fullstop Limited as on 31-3-2010, being the date of voluntary winding up is as under:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Land and Building	3,86,000
10,000, 12% Cumulative		Plant & Machinery	8,21,000
preference shares of		Stock in Trade	1,84,000

Rs. 100 each fully paid up	10,00,000	Book Debts	13,37,000
Equity Share Capital:		Profit and Loss Account	3,72,000
5,000 Equity shares of			
Rs. 100 each Rs. 60 per			
share called and paid up	3,00,000		
5,000 Equity shares of			
Rs. 100 each Rs. 50 per			
share called and paid up	2,50,000		
15% Debentures	4,00,000		
Preferential Creditors	1,05,000		
Bank Overdraft	3,03,000		
Trade Creditors	7,42,000		
	31,00,000		31,00,000

Preference dividend is in arrears for two years. By 31.3.2010 the assets realised were as follows:

	Rs.
Land and Building	9,84,000
Stock in Trade	1,63,000
Plant and Machinery	7,12,000
Book Debts	11,91,000

Expenses of liquidation is Rs. 54,000. The remuneration of the liquidator is 3 per cent of the realization of assets. Income-tax payable on liquidation is Rs. 44,500. Assuming that the final payments were made on 31.3.2010, prepare the Liquidator's Statement of Account.

Financial Statements of Banking Companies

5. (a) The following facts have been taken out from the records of Centra Bank Ltd. as on 31st March, 2009:

	Rs.	Rs.
Rebate on bill discounted (not due on March 31st, 2008)		45,800
Discount received		2,02,500
Bill discounted	12,25,000	

An analysis of the bills discounted is as follows:

	Amount Rs.	Due date 2009	Rate of discount
(i)	3,75,000	April 8	12%
(ii)	1,50,000	May 5	14%
(iii)	2,20,000	June 12	14%
(iv)	4,80,000	July 15	15%

You are required to:-

(i) Calculate Rebate on Bill Discounted as on 31st March, 2009.

(ii) The amount of discount to be credited to the profit and loss account.

(iii) Show necessary journal entries in the books of Centra Bank Ltd. as on 31st March, 2009.

(b) Find out the income to be recognised by Yash Bank Limited for the year ended 31.3.2010 in respect of interest on advances as detailed below:

	Performing Assets		Non Performing Assets	
	Interest earned	Interest received	Interest earned	Interest received
				(Rs. in lakhs)
Term loan	240	160	150	10
Cash credits and overdrafts	1,500	1,240	300	24
Bills purchased and discounted	300	300	100	40

Financial Statements of Insurance Companies

6. On 31st March, 2009 the books of Beta Insurance Company Limited, contained the following particulars in respect of fire insurance:

Particulars	Amount Rs.
Reserve for unexpired risks on March 31, 2008	5,00,000
Additional Reserve for unexpired risks on March 31, 2008	1,00,000
Premiums	11,20,000
Claims paid	6,40,000

Estimated liability in respect of outstanding claims:	
On March 31, 2008	65,000
On March 31, 2009	90,000
Expenses of management (including Rs.30,000 legal expenses paid in connection with the claims)	2,80,000
Interest and dividend	64,250
Income tax on the above	6,520
Profit on sale of investments	11,000
Commission paid	1,52,000

On 31st March, 2009 provide Rs.5,60,000 as unexpired risk reserve and Rs.75,000 as additional reserve.

You are required to prepare the Fire Insurance Revenue account as per regulations of IRDA, for the year ended 31st March, 2009.

Financial Statements of Electricity Supply Companies

7. Surya Electricity Company provides you the following information:

Particulars	(Rs. in lakhs)
Fixed Assets (Cost)	200
Depreciation Reserve on Fixed Assets	50
Customer's contribution towards Fixed Assets	1
Intangible Assets	6
Intangible Assets written-off	1
Average of Current Assets (Including Debtors worth Rs.2 lakhs)	22
5% Contingency Reserve Investments	10
4.5% Reserve Fund Investments	50
Loans from Electricity Board	30
Loans from Approved Institutions	10
8% Debentures	20
Development Reserve	10
Security Deposit	55
Tariff and Dividend Control Reserve	4
Licensee's A/c	1
Net Profit before interest on Debentures for the year ended March 31, 2010	8.88
Reserve Bank Rate	5%

Calculate:

(i) Capital Base

(ii) Reasonable Return

(iii) Surplus

(iv) Statement showing disposal of surplus, and

(v) Statement showing the disposal of profits.

Taxation may be ignored.

Average Due Date

8. Calculate the average due date and interest @10% p.a. on the basis of the following details:

Rs. 60,000 was given on 1 January 2006 is to be repaid as under:

Rs.			
5,500	on	1 January	2007
9,500	on	1 January	2009
20,000	on	1 January	2010
7,000	on	1 January	2012
18,000	on	1 January	2014

Self-Balancing Ledgers

9. Mr. Ready maintains his ledgers on self-balancing system. The transactions from January 1 to April 30, 2010 are given below. You are required to prepare the General Ledger Adjustment Account as it will appear in the Debtors Ledger:

(1) Opening Balance (January 1, 2010):

Debtors Ledger Rs. 78,000 (excluding advance by a customer of Rs.2,000)

(2) Cash Sales Rs. 12,000 (being 10% of total sales).

(3) Collection from customers (other than collections on Bills Receivable) amounted to Rs. 1,10,000 which includes the following:

(a) A sum of Rs. 3,000 realised from the estate of an insolvent customer @ 0.60 paise per rupee.

(b) Rs. 6,500 received from a customer as advance for sale.

(c) Rs. 4,000 received from a debtor after adjustment of an advance of Rs. 2,000 which was received in December 2009.

(d) Rs. 1,250, received from a party whose account was written off in earlier years.

(4) Interest charged to customers on overdue account Rs. 2,600.

(5) Bills Receivable drawn during the period Rs. 18,500.

(6) Bills receivable collected during the period Rs. 10,600 (including Rs. 5,900 collected on Bills Receivable drawn during November and December 2009).

(7) Bills Receivable dishonoured on maturity Rs. 1,700.

(8) Bills Receivable endorsed to suppliers Rs. 6,000. Out of which Bills Receivable for Rs. 2,000 was discounted by Creditors at 5% duly met at maturity. Bills Receivable for Rs. 3,000 was dishonoured on maturity (noting charge being Rs. 20) and Bills Receivable amounting to Rs. 1,000 will mature in May 2010.

(9) Returns Inward Rs. 11,600.

(10) Transfer from Creditors ledger to Debtors ledger Rs. 6,900.

Accounting for Not-for-profit Organisations

10. The managing committee of a Social Club are concerned about the financial position of the club, following the sudden absence of the treasurer from 31st Dec. 2010, the date on which the annual accounts are closed.

On 31st Dec. 2009, the Balance Sheet of the club was as follows:

Balance Sheet

as at 1st January 2010

Liabilities	Rs.	Assets		Rs.
Capital Fund:	2,66,980	Fixtures and Equipments:		
Sundry Liabilities	22,920	At Cost	1,34,000	
Subscription received in advance	600	*Less*: Depreciation	64,000	70,000
		Stock of Provisions		46,480
		Subscriptions Due		1,200
		Bank Balance		1,69,440
		Cash in hand		3,380
	2,90,500			2,90,500

On examination of the records, papers etc. you obtain the following information:

(1) Members pay an annual subscription of Rs. 100. An examination of duplicates of receipts books showed that during the year ended 31st Dec. 2010, 540 members had paid for the year 2010 and 5 members paid in advance for 2011. Two members have resigned without paying previous year's subscription and at the end of the year there were 550 members on the register.

(2) The Cash Book has not been written-up but an analysis of the Petty Cash Vouchers showed the following:

	Rs.
Purchase of stores and provision	58,240
Sundry expenses	9,520
Repairs and Renewals	4,200
Casual labour charges	64,200
Postage and Stationery	4,000

(3) The refreshment room incharge used to hand over the collection daily to the treasurer with bill rolls, which could not be found. He, however, informed that the average gross profit on sales would be 45%. The stock of stores and provisions on 31st Dec. 2010 was Rs. 52,960 and cash left was Rs. 200.

(4) A summary of the bank statement for the year showed the following:

	Rs.		Rs.
Opening Balance	1,69,440	Payment for Stores and Provisions	4,18,320
Bank Deposits	6,86,540	Wages	2,09,040
		Rent and Rates	1,09,240
		Light and Power	22,000
		Telephone	1,600
		Repairs and Renewals	32,400
		Dish-washing machine	10,400
		Balance on 31.12.2010	52,980
	8,55,980		8,55,980

(5) A bundle of unpaid bills have been found in the treasurer's desk on 31st December, 2010 which have been summarised as follows:

	Rs.
Stores and Provisions purchased	1,09,440
Electricity Bills	3,200
Printing and Stationery	3,800
Telephone	800

(6) Depreciation is to be provided on Fixtures and Equipment @ 20% on cost including year of acquisition.

You are required to prepare:

(a) Cash Account for the year ended 31st Dec. 2010.

(b) An Income and Expenditure Account for the year ended 31st Dec. 2010.

(c) A Balance Sheet as on that date.

Accounts from Incomplete Records

11. Somesh, who keeps books by single entry, had submitted his income-tax returns to income-tax authorities showing his incomes to be as follows:

	Rs.
Year ending March 31, 2005	33,075
Year ending March 31, 2006	33,300
Year ending March 31, 2007	35,415
Year ending March 31, 2008	61,875
Year ending March 31, 2009	54,630
Year ending March 31, 2010	41,670

The Income-tax officer is not satisfied as to the accuracy of the incomes returned. You are appointed as a consultant to assist in establishing correctness of the incomes returned and for that purpose you are given the following information:

(a) Business liabilities and assets at March 31, 2004 were:

Creditors: Rs.32,940, Furniture & Fittings: Rs.22,500, Stock : Rs.24,390 (at selling price which is 25% above cost), Debtors: Rs.11,025, Cash at Bank and in hand Rs.15,615.

(b) Somesh owed his brother Rs.18,000 on March 31, 2004. On February 15, 2007 he repaid this amount and on April 1, 2009, he lent his brother Rs.13,500.

(c) Somesh owns a house which he purchased in 1999 for Rs.90,000 and a car which he purchased in October, 2005 for Rs.33,750. In January, 2009, he bought debentures in X Ltd. having face value of Rs.40,000 for Rs.33,750.

(d) In May, 2009 a sum of Rs.13,500 was stolen from his house.

(e) Somesh estimates that his living expenses have been 2004-05 – Rs.13,500; 2005-06 – Rs.18,000; 2006-07 – Rs.27,000; 2007-08, 2008-09 and 2009-10 – Rs.31,500 p.a. exclusive of the amount stolen.

(f) On March 31, 2010 business liabilities and assets were: Creditors Rs.37,800, Furniture, Fixtures and Fittings Rs.40,500, Stock Rs.54,330 (at selling price with a gross profit of 25%), Debtors Rs.26,640, Cash-in-Hand and at Bank Rs.29,025.

From the information submitted, prepare statements showing whether or not the incomes declared by Somesh are correct.

Hire-Purchase Instalments

12. Modern Ltd. has a hire-purchase department which fixes hire-purchase price by adding 40% to the cost of the goods. The following additional information is provided to you :

	Rs.
On 1st April, 2009 :	
Goods out on hire-purchase (at hire-purchase price)	2,10,000
Instalments due	14,000
Transactions during the year :	
Hire-purchase price of goods sold	9,80,000
Instalments received	8,12,000
Value of goods repossessed due to defaults (hire-purchase instalments unpaid Rs. 5,600)	7,800
On 31st March, 2010:	
Goods out on hire-purchase (at hire-purchase price)	3,78,000

You are required to prepare Hire-purchase Trading Account, ascertaining the profit made by the department during the year ended 31st March, 2010.

Investment Accounts

13. The following transactions Mr. Malamaal took place during the year ended 31st March, 2010:

1st April	Purchased Rs.12,00,000 8% bonds @ Rs.80.5 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of Rs.10 each in X Ltd. for Rs.40,00,000.
1st May	Received half year's interest on 8% bonds.
15th May	X Ltd. made a bonus issue of three equity shares for every two held. Mr. Malamaal sold 1,25,000 bonus shares @ Rs.20 each.
1st October	Sold Rs.3,00,000 8% bonds @ Rs.81 ex-interest.
1st November	Received half year's bond interest.
1st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment accounts in the books of Mr. Malamaal for the year ended 31st March, 2010.

Departmental Accounts

14. Om Ltd. has three departments and submits the following information for the year ending on 31st March, 2010:

	A	B	C	Total (Rs.)
Purchases (units)	6,000	12,000	14,400	
Purchases (Amount)				6,00,000
Sales (Units)	6,120	11,520	14,976	
Selling Price (Rs. per unit)	40	45	50	
Closing Stock (Units)	600	960	36	

You are required to prepare departmental trading account of Om Ltd., assuming that the rate of profit on sales is uniform in each case.

Branch Accounts

15. Goods sent to a branch were charged by the head office at cost plus 10 percent. Head Office makes a uniform gross profit of 33-1/3% on selling price. The Branch sells goods at a uniform gross profit of 25% on selling price. The following transactions have taken place during the year ended on 31st March 2010.

(a) Head Office purchases amounted to Rs. 15,02,350, purchases returns were Rs. 1,00,000 and discount allowed by suppliers amounted to Rs. 30,090.

(b) Sales by Head Office amounted to Rs. 10,80,000. Goods sent to branch were Rs. 5,44,500 (at invoice price), discount allowed to customers amounted to Rs. 9,180.

(c) Goods sent to Branch for Rs. 66,000 in March, were not received at the Branch until April.

(d) Branch purchased goods locally for Rs. 1,87,500, discount allowed by suppliers amounted to Rs. 4,875.

(e) Overhead expenses of Head Office were Rs. 2,80,260, and of Branch Rs. 80,475.

(f) Sales by the Branch amounted to Rs. 7,20,000, discount allowed to customers amounted to Rs. 5,640 and cost of goods lost-in-transit was Rs. 8,010.

(g) Branch Stock as on 31st March, included stock invoiced by Head Office at Rs. 1,15,500.

Prepare columnar Trading and Profit and Loss Account of Head Office and the Branch for the year ending 31st March 2010.

Insurance Claims

16. A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	Rs.
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of Rs. 31,250.

Partnership Firm – Death of a Partner and Sale to a Company

17. A, B and C were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capitals or drawings.

    A died on 31.12.2009 and on that date, the partners' balance were as under:

    Capital Account : A – Rs.60,000; B- Rs.40,000; C- Rs.20,000

    Current Account: A – Rs.29,000; B – Rs.20,000; C – Rs.5,000 (Dr.).

    By the partnership agreement, the sum due to A's estate was required to be paid within a period of 3 years, and minimum instalment of Rs.20,000 each were to be paid, the first such instalment falling due immediately after death and the subsequent instalments at half-yearly intervals. Interest @ 5% p.a. was to be credited half-yearly.

    In ascertaining his share, goodwill (not recorded in the books) was to be valued at Rs.60,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at Rs.36,000 in excess of the book values.

    No Goodwill Account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at Rs.20,000 matured on 1.1.2009, realising Rs.26,000; payments of Rs.20,000 each were made to A's Executors on 1.1.2009, 30.6.2009 and 31.12.2009. B and C continued trading on the same terms as previously and the net profit for the year to 31.12.2009 (before charging the interest due to A's estate) amounted to Rs.32,000. During that period, the partners drawings were: B- Rs.15,000; and C- Rs.8,000.

    On 1.1.2010, the partnership was dissolved and an offer to purchase the business as a going concern for Rs.1,40,000 was accepted on that day. A cheque for that sum was received on 30.6.2010.

    The balance due to A's estate, including interest, was paid on 30.6.2010 and on that day, B and C received the sums due to them.

    You are required to write-up the Partners' Capital and Current Accounts from 1.1.2009 to 30.6.2010. Show also the account of the executors of A.

Accounting in Computerised Environment

18. A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

Accounting Standards

19. (a) Explain the concept of 'Materiality' in brief.

(b) A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

Comment on the valuation of the stocks by the company.

(c) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3(AS 3) revised.

(d) Mr. 'X' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'X' will receive an additional Rs.2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. X wants to recognize this revenue since in the past he has been able to meet similar targets very easily.

Is X correct in his proposal? Discuss.

(e) SM company has taken a Transit Insurance Policy. Suddenly in the year 2009-2010 the percentage of accident has gone up to 7% and the company wants to recognize insurance claim as revenue in 2009-2010 in accordance with relevant Accounting Standards. Do you agree? Explain in brief, as per the relevant Accounting Standards.

(f) Write short note on 'treatment of refund of government grants'.

(g) Explain the treatment of borrowing costs in line with the provisions of AS 16.

(h) XYZ Ltd. is showing an intangible Asset at Rs. 72 lakhs as on 01.04.2010 and that item was required for Rs. 96 lakhs on 01.04.2007 and that item was available for use from that date. Himalayas Ltd. has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to relevant accounting standard.

(i) Explain the disclosure requirement for fixed assets as per AS 10.

(j) Explain the types of lease as per AS 19.

20. (a) You are required to value the inventory per kg of finished goods consisting of:

	Rs. per kg.
Material cost	200
Direct labour	40
Direct variable overhead	20

Fixed production charges for the year on normal working capacity of 2 lakh kgs is Rs.20 lakhs. 4,000 kgs of finished goods are in stock at the year end.

(b) While preparing its final accounts for the year ended 31st March, 2010, a company made a provision for bad debts @ 5% of its total debtors. In the last week of February 2010, a debtor for 2 lakhs had suffered heavy loss due to earthquake. The loss was not covered by any insurance policy. In April, 2010, the debtor became bankrupt. Can the company provide for full loss arising out of insolvency of debtor in the final accounts for year ended 31st March, 2010?

(c) Mega Ltd. makes provision for expenses worth Rs.7,00,000 for the year ending March 31, 2009, but the actual expenses during the year ending March 31, 2010 comes to Rs.9,00,000 against provision made during the last year. State with reasons whether difference of Rs.2,00,000 is to be treated as prior period item as per AS 5.

(d) Supriya Ltd. received a grant of Rs.2,500 lakhs during the last accounting year (2008-09) from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2009-10, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the current accounting treatment, with reference to the provisions of AS 12.

(e) M/s Prima Co. Ltd. sold goods worth Rs. 50,000 to M/s Y and Company. M/s Y and Co. asked for discount of Rs. 8,000 which was agreed by M/s Prima Co. Ltd. the sale was effected and goods were despatched. After receiving, goods worth Rs. 7,000 was found defective, which they returned immediately. They made the payment of Rs. 35,000 to M/s Prima Co. Ltd. Accountant booked the sales for Rs. 35,000. Please discuss.

(f) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2010, when the exchange rate was Rs.43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2010 when the exchange rate was Rs.47 per US Dollar. However, on 31st March, 2010, the rate of exchange was Rs.48 per US Dollar. The company passed an entry on 31st March, 2010 adjusting the cost of raw materials consumed for the difference between Rs.47 and Rs.43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

(g) Suraj Limited wishes to obtain a machine costing Rs.30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Ashok Ltd., for a lease rental for Rs.3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Suraj Limited is not sure about the treatment of these lease rentals and seeks your advise.

(h) During the year 2008-09, P Limited incurred the following expenses on machinery:

Rs.2.50 lacs as routine repairs and Rs.75,000 on partial replacement of a part. Rs.7 lacs on replacement of part of machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

(i) Mr. X set up a new factory in the backward area and purchased plant for Rs. 500 lakhs for the purpose. Purchases were entitled for the CENVAT credit of Rs. 10 lakhs and also Government agreed to extend the 25% subsidy for backward area development. Determine the depreciable value for the asset.

(j) An unquoted long term investment is carried in the books at a cost of Rs. 2 lakhs. The published accounts of the unlisted company received in May, 2010 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs. 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31st March, 2010?

(k)

Net profit for the year 2009	Rs. 18,00,000
Net profit for the year 2010	Rs. 60,00,000
No. of equity shares outstanding until 30th September 2010	20,00,000

Bonus issue 1st October 2010 was 2 equity shares for each equity share outstanding at 30th September, 2010.

Calculate Basic Earnings Per Share.

SUGGESTED ANSWERS/ HINTS

1. Cash Flow Statement of Mr. Shyam

for the year ended 31.3.2010

			Rs.
(i)	**Cash flow from operating activities**		
	Net Profit (given)		1,80,000
	Adjustments for		

	Depreciation on Plant & Machinery (W.N.2)	72,000	
	Loss on Sale of Machinery (W.N.1)	8,000	80,000
	Operating Profit before working capital changes		2,60,000
	Decrease in Stock	40,000	
	Increase in Debtors	(80,000)	
	Increase in Creditors	16,000	(24,000)
	Net cash from operating activities		2,36,000
(ii)	**Cash flow from investing activities**		
	Sale of Machinery	20,000	
	Purchase of Land (4,40,000 – 3,00,000)	(1,40,000)	
	Net cash used in investing activities		(1,20,000)
(iii)	**Cash flow from financing activities**		
	Repayment of Mrs. Shyam's Loan	(1,00,000)	
	Drawings (W.N.3)	(68,000)	
	Loan from Bank	40,000	
	Net cash used in financing activities		(1,28,000)
Net decrease in cash			(12,000)
Add: Cash balance as on 1.4.2009			40,000
Cash balance as on 31.3.2010			28,000

Working Notes:

1. Plant & Machinery A/c

	Rs.		*Rs.*
To Balance b/d (3,20,000 + 1,00,000)	4,20,000	By Bank A/c – Sales	20,000
		By Provision for Depreciation A/c	12,000
		By Profit & Loss A/c – Loss on Sale (40,000 – 20,000 – 12,000)	8,000
		By Balance c/d (2,20,000+1,60,000)	3,80,000
	4,20,000		4,20,000

2. Provision for depreciation on Plant and Machinery A/c

	Rs.		*Rs.*
To Plant and Machinery A/c	12,000	By Balance b/d	1,00,000
To Balance c/d	1,60,000	By Profit & Loss A/c (Bal.fig.)	72,000
	1,72,000		1,72,000

3. Mr. Shyam's drawings

	Rs.
Opening Capital	5,00,000
Add: Net Profit	1,80,000
	6,80,000
Less: Closing Capital	(6,12,000)
Drawings (Bal. fig.)	68,000

2. (i) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 "Reserves created by Revaluation of fixed assets cannot be capitalized."

(ii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, 'Capital Reserve' realized in cash can be utilized for issue of fully paid bonus shares. Therefore, Rs. 1,60,000 being profit on sale of plant, is a capital profit which has been realized in cash, can be utilized for issue of the bonus shares. For remaining balance in capital reserve account, no further details of its constituents have been given. Therefore, no comment on it can be made.

(iii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, Securities Premium collected in cash only can be utilized for bonus issue, therefore Rs. 80,000 (i.e. Rs.1,00,000 – Rs. 20,000) can be utilized for bonus issue.

(iv) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, no company can issue bonus shares to its shareholders without extending similar benefit to convertible debentureholders. Pending such conversion, necessary number of shares should be earmarked for convertible debentureholders. Therefore, convertible debentureholders are also entitled to the bonus shares in the same ratio as the equity shareholders.

(v) **Minimum number of Equity shares to be issued as bonus shares**

	In shares
Issue of Bonus Shares to existing Equity Shareholders	90,000
Add: Number of bonus shares to be issued after conversion of debentures $\left(\frac{20,00,000 \times 20\%}{10}\right) \times \frac{1}{4}$	10,000
Total bonus issue through equity shares	1,00,000

(vi) **Minimum Authorised Share Capital**

	Shares	*Rs.*
Equity share capital		
Existing Equity Shares	3,60,000	36,00,000
Bonus to Equity Shareholders	90,000	9,00,000
20% conversion of 12% Debentures	40,000	4,00,000
Bonus shares to be issued to Debentureholders after conversion	10,000	1,00,000
Authorised Equity Share Capital	5,00,000	50,00,000
Preference share capital		
12% Preference Shares	40,000	4,00,000
Minimum Authorised Capital		54,00,000

3. Calculation of purchase consideration

One share of B Ltd. will be issued in exchange of every share of A Ltd. (i.e. 20,000 equity shares of B Ltd will be issued against 20,000 equity shares of A Ltd.)	20,000 shares
Less: Shares already held (20% of 10,000 shares)	
2,000 shares converted in new equity shares	200 shares
Number of shares to be issued by B Ltd to shareholders of A Ltd.	19,800 shares

Journal Entries in the books of B Ltd.

Date		*(Rs. in thousands)*	
2010		*Dr.*	*Cr.*
March,31	Loan from bank A/c Dr.	60	
	To Reconstruction A/c		60
	(Being loan from bank waived off to the extent of Rs. 60 thousand)		

	Equity share capital A/c (Rs.100)	Dr.	1,000	
	To Equity share capital A/c (Rs.10)			100
	To Reconstruction A/c			900
	(Being equity shares of Rs. 100 each reduced to Rs.10 each)			
	Equity share capital A/c (Rs.10)	Dr.	100	
	To Equity share capital A/c (Rs.100 each)			100
	(Being 10 equity shares of Rs. 10 each consolidated to one share of Rs.100 each)			
	Reconstruction A/c	Dr.	960	
	To Profit and loss A/c			800
	To Capital reserve A/c			160
	(Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)			
	Business purchase A/c	Dr.	1,980	
	To Liquidator of A Ltd.			1,980
	(Being purchase of business of A Ltd.)			
	Fixed asset A/c	Dr.	2,700	
	Investment A/c (700 – 250)	Dr.	450	
	Sundry debtors A/c	Dr.	400	
	Cash at bank A/c	Dr.	250	
	To Sundry creditors A/c			300
	To Proposed dividend A/c			200
	To Loans from bank A/c			250
	To 10% Debentures A/c			500
	To Business purchase A/c			1,980
	To Reserves A/c (800 – 230)			570
	(Being assets, liabilities and reserves taken over under pooling of interest method)			
	Liquidator of A Ltd. A/c	Dr.	1,980	
	To Equity share capital A/c			1,980
	(Being payment made to liquidators of A Ltd. by allotment of 19,800 new equity shares)			

	Sundry creditors A/c Dr.		100	
	To Sundry debtors A/c			100
	(Being mutual owing cancelled)			
	Proposed dividend A/c Dr.		200	
	To Bank A/c			200
	(Being dividend paid off)			

Balance Sheet of B Ltd. after merger as on 31.3.2010

Liabilities	*Rs. in thousands*	*Assets*	*Rs. in thousands*
20,800, Equity shares of Rs.100 each fully paid	2,080	Fixed assets (2,700 + 850)	3,550
(Out of the above, 19,800 shares have been issued for consideration other than cash)		Investments (700 – 250)	450
Capital reserve	160	Sundry debtors (400+150-100)	450
General reserve	570	Cash at bank (250 – 200)	50
10% Debentures	500		
Loan from bank (250 +450 -60)	640		
Bank overdraft	50		
Sundry creditors (300+300-100)	500		
	4,500		4,500

4. Liquidator's Statement of Account

Receipts	*Rs.*	*Payments*	*Rs.*	*Rs.*
Assets Realised:		Liquidator's		
Land & Building	9,84,000	Remuneration		91,500
Stock-in-Trade	1,63,000	(30,50,000 x 3/100)		
Plant and machinery	7,12,000	Liquidator's Expenses		54,000
Book Debts	11,91,000	Debentures*	4,00,000	
Calls on 5,000 shares		Debenture Interest	60,000	4,60,000
of Rs. 50 paid up		Preferential		

* It is assumed that Debentures are fully secured.

@ Rs.4 per share	20,000	Creditors (1,05,000 + 44,500)		1,49,500
(Refer W.N.)		Bank Overdraft		3,03,000
		Trade Creditors		7,42,000
		Preference Shareholders:		
		Capital	10,00,000	
		Add: Arrears		
		of dividend		
		(for 2 years)	2,40,000	12,40,000
		Equity Shareholders:		
		Refund on 5,000 shares of		
		Rs. 60 paid up @ Rs. 6 per		
		share (Refer W.N.)		30,000
	30,70,000			30,70,000

Working Note:

	Rs.
Total equity capital paid up	5,50,000
Less: Balance available after payment to unsecured and preference creditors	10,000
Loss to be borne by 10,000 equity shareholders	5,40,000
Loss per share	Rs.54
Hence, amount of call on Rs.50 per share paid up (Rs.54 – Rs.50)	Rs.4 per share
Amount of refund on Rs.60 per share paid up (Rs.60 – Rs.54)	Rs.6 per share

5. (a) (i) Calculation of Rebate on bills discounted

S.No.	*Amount (Rs.)*	*Due date 2009*	*Unexpired portion*	*Rate of discount*	*Rebate on bill discounted Rs.*
(i)	3,75,000	April 8	8 days	12%	986
(ii)	1,50,000	May 5	35 days	14%	2,014

(iii)	2,20,000	June 12	73 days	14%	6,160
(iv)	4,80,000	July 15	106 days	15%	20,910
					30,070

(ii) Amount of discount to be credited to the Profit and Loss Account

	Rs.
Transfer from Rebate on bills discount as on 31st March, 2008	45,800
Add: Discount received during the year ended 31st March, 2009	2,02,500
	2,48,300
Less: Rebate on bills discounted as on 31st March, 2009	30,070
Discount credited to the Profit and Loss Account	2,18,230

(iii) Journal Entries

			Dr. Rs.	Cr. Rs.
(1)	Rebate on bills discounted A/c	Dr.	45,800	
	To Discount on bills A/c			45,800
	(Being the transfer of rebate on bills discounted on 31st March, 2008 to Discount on bills A/c)			
(2)	Discount on bills A/c	Dr.	30,070	
	To Rebate on bill discounted A/c			30,070
	(Being the transfer of rebate on bills discounted required on 31st March, 2009 from Discount on bills A/c)			
(3)	Discount on bills A/c	Dr.	2,18,230	
	To Profit and Loss A/c			2,18,230
	(Being the amount of discount on bills transferred to profit and loss account)			

(b) Interest on performing assets to be recognized on accrual basis, but interest on non-performing asset should be recognized on cash basis.

In the books of Yash Bank Ltd.

		Rs. in lakhs
Interest on Term Loan	(240 + 10)	250
Cash Credits and Overdrafts	(1500 + 24)	1,524

Bills Purchases and Discounted	(300 + 40)	340
Total Interest to be recognized		2,114

6. **FORM B– RA**

Name of the Insurer: Beta Insurance Company Limited

Registration No. and Date of registration with IRDA: …………………….

Revenue Account for the year ended 31st March, 2009

Particulars	*Schedule*	*Amount (Rs.)*
Premium earned (net)	1	10,85,000
Profit or loss on sale/redemption of investment		11,000
Others		
Interest, dividend & rent (Gross)		64,250
Total (A)		11,60,250
Claim incurred (Net)	2	6,95,000
Commission	3	1,52,000
Operating expenses related to insurance	4	2,50,000
Total (B)		10,97,000
Operating profit/loss from insurance business		63,250

Schedule –1 (Premium earned net)	Rs.
Premium received	11,20,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	35,000
Total premium earned	10,85,000
Schedule -2 (Claims incurred net)	
Claim paid	6,40,000
Add: Legal expenses regarding claims	30,000
	6,70,000
Add: Claims outstanding as on 31st March, 2009	90,000
	7,60,000
Less: Claims outstanding as on 31st March, 2008	65,000
	6,95,000

Schedule-3 (Commission)

Commission paid	1,52,000

Schedule-4 (Operating expenses related to Insurance Business)

Expenses of management (2,80,000 – 30,000)	2,50,000

Working Note:

Calculation for change in Reserve for Unexpired risk:		Rs.
As on 31st March, 2009:		
Reserve for Unexpired Risk	5,60,000	
Additional Reserve	75,000	6,35,000
Less: Reserve for Unexpired risks as on 31st March, 2008	5,00,000	
Additional reserve as on 31st March, 2008	1,00,000	6,00,000
		35,000

Note: Interest and dividends are shown at gross value in Revenue A/c. Income tax on the above will not be included in revenue A/c of an insurance company as it is the part of Profit and Loss A/c.

7. (i) Capital Base

		(Rs. in lakhs)
Original cost of Fixed Assets	200	
Less: Customer's Contribution	(1)	199
Cost of Intangible Assets		6
Average of Current Assets	22	
Less: Debtors	(2)	20
Contingencies Reserve Investments		10
		235
Less: Depreciation Reserve	50	
Intangible assets written off	1	
Loans from Electricity Board	30	
Loans from Approved Institutions	10	
8% Debentures	20	
Development Reserve	10	
Security Deposits	55	
Tariff and Dividend Control Reserve	4	
Licensee's A/c	1	(181)
Capital Base		54

(ii) Reasonable Return

	(Rs. in lakhs)
7%* of Capital Base (54 x 7%)	3.78
½% on Loans from Electricity Board (30 x 0.50%)	0.15
½ % on Loans from Approved Institutions (10 x 0.50%)	0.05
½% on Debentures (20 x 0.50%)	0.10
½% on Development Reserve (10 x 0.50%)	0.05
Income from Reserve Fund Investments (50 x 4.50%)	2.25
Reasonable Return	6.38

(iii) Surplus

	(Rs. in lakhs)
Clear Profit (before Debenture Interest)	8.88
Less: Debenture Interest @ 8%	(1.60)
Clear Profit after Debenture Interest	7.28
Less: Reasonable Return	(6.38)
Surplus for disposal (limited upto 20% of reasonable return i.e. 6.38 x 20% = 1.273. As surplus of Rs.0.90 lakhs is less than Rs.1.273 lakhs. Therefore only Rs.0.90 lakhs will be available for disposal)	0.90

(iv) Statement showing disposal of Surplus

		(Rs. in lakhs)
1/3 of Surplus not exceeding 5% of Reasonable Return is at the disposal of an undertaking		
i.e. 1/3 of 0.90	0.30	
5% of Reasonable Return	0.319	0.30
½ of the balance viz. [0.90 - 0.30] transferred to Tariff & Dividend Control Reserve Account		0.30
½ of the balance viz [0.90 - 0.30] transferred to Consumer Rebate & Reserve Account		0.30
Total Surplus		0.90

* Reserve Bank Rate i.e. 5% +2% = 7%.

(v) Statement showing Disposal of Profit

	(Rs. in lakhs)
Tariff & Dividend Control Reserve	0.30
Consumer Rebate & Reserve	0.30
At the disposal of the undertaking [6.38 + 0.30 (See note (iv)]	6.68
	7.28

8. Calculation of Average Due Date

Instalment	*Due Date*	*Years since 1 January 2006*	*Product Rs.*
5,500	1 January 2007	1	5,500
9,500	1 January 2009	3	28,500
20,000	1 January 2010	4	80,000
7,000	1 January 2012	6	42,000
18,000	1 January 2014	8	1,44,000
60,000			3,00,000

Average Due Date = 1 January 2006 + $\frac{3,00,000}{60,000}$

= 1 January 2006 + 5 years i.e., 1 January 2011

Interest = $\frac{60,000 \times 5 \times 10}{100}$ = Rs. 30,000

9. In the Debtors Ledger of Mr. Ready

General Ledger Adjustment Account

2010			*Rs.*	*2010*			*Rs.*
Jan. 1	To	Balance b/d	2,000	Jan. 1	By	Balance b/d	78,000
Jan. 1 to	To	Debtors Ledger					
Apr.30		Adjustment A/c:		Jan. 1 to	By	Debtors Ledger	
		Cash		Apr. 30		Adjustment A/c:	
		(Rs. 1,10,000 – Rs. 1,250)	1,08,750			Credit Sales	

		Bad Debts $\left(\text{Rs. }3{,}000 \times \frac{40}{60}\right)$	2,000			$\left(\text{Rs. }12{,}000 \times \frac{90}{10}\right)$	1,08,000
		Bills Receivable	18,500			Interest	2,600
		Returns Inward	11,600			B/R Dishonoured	
		Transfer from				(1,700 + 3,020)	4,720
		Creditors Ledger	6,900				
	To	Balance c/d	<u>50,070</u>		By	Balance c/d	<u>6,500</u>
			<u>1,99,820</u>				<u>1,99,820</u>
2010				2010			
May 1	To	Balanced b/d	6,500	May 1	By	Balance b/d	50,070

10. (a) **In the books of a Social Club**

Cash Account

for the year ended 31st December, 2010

		Rs.	Rs.			Rs.
To	Balance b/d		3,380	By	Purchase of Stores and Provision	58,240
To	Subscriptions:			By	Sundry Expenses	9,520
	2009 (1,200 – 200) (W.N.1)	1,000		By	Repairs and Renewals	4,200
	2010 (W.N.1)	54,000		By	Casual Labour Charges	64,200
	2011 (W.N.1)	<u>500</u>	55,500	By	Postage and Stationery	4,000
To	Refreshment room receipts (W.N.2)		10,12,000	By	Bank A/c – Deposit	6,86,540
				By	Amount defalcated	2,43,980
				By	Balance c/d	<u>200</u>
			<u>10,70,880</u>			<u>10,70,880</u>

(b) Income and Expenditure Account

for the year ended 31st December 2010

		Rs.			Rs.
To	Provisions consumed (W.N.2)	5,56,600	By	Sale of Provisions (W.N.2)	10,12,000
To	Wages	2,09,040	By	Subscriptions (W.N.1)	55,000
To	Rent and Rates	1,09,240			
To	Light and Power (22,000 + 3,200)	25,200			
To	Telephone (1,600 + 800)	2,400			
To	Repairs and Renewals (32,400 + 4,200)	36,600			
To	Casual Labour Charges	64,200			
To	Postage and Stationery (4,000 + 3,800)	7,800			
To	Bad Debts	200			
To	Sundry Expenses	9,520			
To	Depreciation on fixtures and equipments (W.N.4)	28,880			
To	Surplus (Excess of income over expenditure)	17,320			
		10,67,000			10,67,000

(c) Balance Sheet

as at 31st December 2010

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund:			Fixtures and Equipments	1,34,000	
Opening Balance	2,66,980		Additions	10,400	
Add: Surplus	17,320			1,44,400	
	2,84,300		*Less*: Depreciation		
Less: Defalcation of Cash	2,43,980	40,320	(64,000 + 28,880)	92,880	51,520
Creditors for			Closing Stock of Provisions		52,960

Electricity bills	3,200		Subscription Due (W.N.1)		400
Printing and stationery	3,800		Bank Balance		52,980
Telephone	800		Cash in hand		200
Provisions	1,09,440	1,17,240			
Subscription received in advance (W.N.1)		500			
		1,58,060			1,58,060

Working Notes:

1. Subscriptions Account

		No. of Members	*Rs.*			*No. of Members*	*Rs.*
To	Balance b/d	12	1,200	By	Balance b/d	6	600
To	Income & Exp. A/c	550	55,000	By	Cash A/c	555	55,500
To	Balance c/d	5	500		(540 + 10 + 5)		
				By	Income & Exp. A/c:		
				By	Bad Debts A/c	2	200
				By	Balance c/d (550-540-6)	4	400
		567	56,700			567	56,700

2. Refreshment room receipts/ sale of provisions

			Rs.
Opening Stock			46,480
Add: Purchases	Cash	58,240	
	Credit (W.N.3)	5,04,840	5,63,080
			6,09,560
Less: Closing Stock			52,960
Cost of goods sold			5,56,600
Add: Gross Profit $(5,56,600 \times \frac{45}{55})$			4,55,400
Sales of Provisions			10,12,000

3. Purchases

Creditors Account

		Rs.			*Rs.*
To	Bank A/c	4,18,320	By	Balance b/d	22,920
To	Balance c/d	1,09,440	By	Purchases (bal. fig.)	5,04,840
		5,27,760			5,27,760

4. Depreciation of fixtures and equipments

= Rs.1,44,400 x 20% = Rs. 28,880

11. Statement of Affairs of 'Somesh'

as on March 31, 2004

Liabilities	Rs.	Assets	Rs.
Creditors	32,940	Furniture, Fixtures & Fittings	22,500
Loan from brother	18,000	Stock (24,390 x 100/125)	19,512
Capital (Bal. fig.)	1,07,712	Debtors	11,025
		Cash-in-Hand and at Bank	15,615
		Building (House)	90,000
	1,58,652		1,58,652

Statement of Affairs of 'Somesh' as on March 31, 2010

Liabilities	Rs.	Assets	Rs.
Creditors	37,800	Furniture, Fixtures & Fittings	40,500
Capital (Bal. fig.)	2,70,112	Stock (54,330 x 75%)	40,747
		Debtors	26,640
		Cash-in-Hand and at Bank	29,025
		Loan to Brother	13,500
		Building (House)	90,000
		Car	33,750
		Debentures in 'X Ltd.'	33,750
	3,07,912		3,07,912

Statement of Profit:

Particulars			Rs.
Capital as on March 31, 2010			2,70,112
Add:	Drawings		
	2004-05	13,500	
	2005-06	18,000	
	2006-07	27,000	
	2007-08	31,500	
	2008-09	31,500	
	2009-10	31,500	1,53,000
			4,23,112
Add:	Amount stolen in May, 2009		13,500
			4,36,612
Less:	Opening Capital as on March 31, 2004		(1,07,712)
			3,28,900
Less:	Profit as shown by I.T.O.		
	For the year ending March 31, 2005	33,075	
	For the year ending March 31, 2006	33,300	
	For the year ending March 31, 2007	35,415	
	For the year ending March 31, 2008	61,875	
	For the year ending March 31, 2009	54,630	
	For the year ending March 31, 2010	41,670	(2,59,965)
Under-statement of Income			68,935

Note: In the absence of the information regarding depreciation in the question, no depreciation has been provided on Building (house) and Car.

12. Modern Ltd.

Hire Purchase Trading Account

		Rs.			Rs.
To	Opening Balances:		By	Opening hire purchase stock reserve	60,000
	Hire purchase stock	2,10,000	By	Bank (Instalments received)	8,12,000
	Instalments due	14,000	By	Goods repossessed	7,800

To	Goods sold on hire purchase	9,80,000	By	Goods sold on hire purchase (Loading) (W.N.2)	2,80,000
To	Closing hire purchase stock reserve (W.N.3)	1,08,000	By	Closing Balances:	
To	Profit and loss Account			Hire purchase stock	3,78,000
	(Transfer of profit)	2,34,200		Instalments due (W.N.4)	8,400
		15,46,200			15,46,200

Working Notes:

			Rs.
(i)	Opening hire purchase stock reserve = (Rs.2,10,000$\times\frac{40}{140}$)		60,000
(ii)	Loading on goods sold (Rs.9,80,000 $\times\frac{40}{140}$)		2,80,000
(iii)	Closing hire purchase stock reserve (Rs.3,78,000 $\times\frac{40}{140}$)		1,08,000
(iv)	Closing instalments due:		
	Opening hire purchase stock		2,10,000
	Opening instalments due		14,000
	Goods sent on hire purchase		9,80,000
			12,04,000
	Less: Instalments received	8,12,000	
	Unpaid instalments on repossessed goods	5,600	
	Closing hire purchase stock	3,78,000	(11,95,600)
			8,400

13.

In the books of Mr. Malamaal
8% Bond Account

		Particulars	Nominal Value	Income	Cost	Date		Particulars	Nominal Value	Income	Cost
2009 April 1	To	Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	2009 May 1	By	Bank A/c (W.N.2)	--	48,000	---
2010 Mar. 31	To	Profit & Loss A/c :				Oct. 1	By	Bank A/c (W.N.4)	3,00,000	10,000	2,43,000
		Int. income		84,000		Nov. 1	By	Bank A/c (W.N.5)	---	36,000	---
		Profit on Sale			11,500	Mar. 31	By	Balance c/d (W.N.7 & 8)	9,00,000	30,000	6,94,500
			12,00,000	1,24,000	9,37,500				12,00,000	1,24,000	9,37,500

Equity Shares in X Ltd.

		Particulars	Nominal Value	Income	Cost	Date		Particulars	Nominal Value	Income	Cost
2009 April 12	To	Bank A/c	10,00,000	-	40,00,000	2009 May 15	By	Bank A/c	12,50,000	---	25,00,000
May 15	To	Bonus Issue A/c (W.N.3)	15,00,000	---	---	Dec. 1	By	Bank (Dividend) (W.N.6)	----	2,25,000	----
2010 Mar. 31	To	Profit & Loss A/c:				2010 Mar. 31	By	Balance c/d (W.N.9)	12,50,000	----	20,00,000
		Dividend	---	2,25,000	----						
		Profit on Sale (W.N.10)	---	----	5,00,000						
			25,00,000	2,25,000	45,00,000				25,00,000	2,25,000	45,00,000

Working Notes:

1. Cum interest purchased cost of 8% Bond = $\left(\frac{12,00,000}{100}\times 80.50\right)$ = Rs. 9,66,000

   Less: Interest portion $\left(12,00,000\times 8\%\times\frac{5}{12}\right)$ Rs. 40,000

   Ex-interest cost Rs. 9,26,000

2. Half yearly interest on 8% bond as on 1st May, 2009

   = Rs. 12,00,000 x 8% x 6/12 = Rs.48,000

3. Bonus issue of equity shares of X Ltd. = 1,00,000/2 x 3 x 10 = Rs.15,00,000

4. Sales value = 3,00,000/100 x 81 = Rs.2,43,000

5. Half yearly interest on 8% bond as on 1st November, 2009

   = (12,00,000 - 3,00,000)x 8% x 6/12 = Rs.36,000

6. Dividend on equity shares of X Ltd.

   = (10,00,000 + 15,00,000 – 12,50,000) x 18% = Rs.2,25,000

7. Accrued interest = 9,00,000 x 8% x 5/12 = 30,000

8. Closing balance of 8% bond 9,26,000/12,00,000 x 9,00,000 = 6,94,500

9. Closing balance of equity shares of X Ltd.

   [40,00,000/(10,00,000+15,00,000)] x 12,50,000 = Rs. 20,00,000

10. Profit on sale of equity shares of X Ltd.

    Sales value = Rs.25,00,000

    Less: Cost [40,00,000/(10,00,000+15,00,000)] x 12,50,000 = Rs.20,00,000

    Rs. 5,00,000

14. Departmental Trading Account for the year ended on 31st March, 2010

	Particulars	A	B	C		Particulars	A	B	C
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
To	Opening Stock	11,520	8,640	12,240	By	Sales	2,44,800	5,18,400	7,48,800
To	Purchases	96,000	2,16,000	2,88,000	By	Closing Stock	9,600	17,280	720
To	Gross Profit	1,46,880	3,11,040	4,49,280					
		2,54,400	5,35,680	7,49,520			2,54,400	5,35,680	7,49,520

Working Notes:

(1) **Profit Margin Ratio**

Selling price of unit purchased:	Rs.
Department A (6,000 x 40)	2,40,000
Department B (12,000 x 45)	5,40,000
Department C (14,400 x 50)	7,20,000
Total Selling Price	15,00,000
Less: Purchase (Cost) Value	6,00,000
Gross Profit	9,00,000

Profit Margin Ratio = $\frac{9,00,000}{15,00,000} \times 100 = 60\%$

(2) **Statement showing department-wise per unit Cost and Purchase Cost**

	A	B	C
Selling Price (Per unit) (Rs.)	40	45	50
Less: Profit Margin @ 60% (Rs.)	24	27	30
Purchase price per unit (Rs.)	16	18	20
Number of units purchased	6,000	12,000	14,400
(Purchase cost per unit x Units purchased)	96,000	2,16,000	2,88,000

(3) **Statement showing calculation of department-wise Opening Stock (in Units)**

	A	B	C
Sales (Units)	6,120	11,520	14,976
Add: Closing Stock (Units)	600	960	36
	6,720	12,480	15,012
Less: Purchases (units)	6,000	12,000	14,400
Opening Stock (Units)	720	480	612

(4) **Statement showing department-wise cost of Opening Stock and Closing Stock**

		A	B	C
Cost of Opening Stock (Rs.)		(720 x 16)	(480 x 18)	(612 x 20)
	Rs.	11,520	8,640	12,240
Cost of Closing Stock		(600 x 16)	(960 x 18)	(36 x 20)
	Rs.	9,600	17,280	720

15. **Trading and Profit and Loss Account for the year ended on 31st March 2010**

Particulars	H.O. (Rs.)	Branch (Rs.)	Total (Rs.)	Particulars	H.O. (Rs.)	Branch (Rs.)	Total (Rs.)
To Purchases less returns	14,02,350	1,87,500	15,89,850	By Sales	10,80,000	7,20,000	18,00,000
To Goods from H.O. less in transit	-	4,78,500	-	By Goods sent to Branch	4,78,500	-	-
To Gross Profit c/d (W.N.4)	4,03,500	1,80,000	5,83,500	By Goods lost in transit	-	8,010	8,010
				By Closing Stock (W.N.1&2)	2,47,350	1,17,990	3,65,340
	18,05,850	8,46,000	21,73,350		18,05,850	8,46,000	21,73,350
To Expenses	2,80,260	80,475	3,60,735	By Gross profit b/d	4,03,500	1,80,000	5,83,500
To Discount Allowed	9,180	5,640	14,820	By Discount allowed	30,090	4,875	34,965
To Goods lost in transit	-	8,010	8,010				
To Stock Reserve (W.N.3)	10,500	-	10,500				
To Net Profit	1,33,650	90,750	2,24,400				
	4,33,590	1,84,875	6,18,465		4,33,590	1,84,875	6,18,465

Working Notes:

1.	Closing stock at head office	
	Purchases less returns	14,02,350
	Less:(a) Cost of Sales (Rs. 10,80,000 x 2/3) 7,20,000	
	(b) Cost of goods sent to Branch	

	(Rs. 4,78,500 x 100/110) 4,35,000	11,55,000
	Closing Stock	2,47,350*
2.	Closing stock at Branch	
	Branch local purchases	1,87,500
	Add: Goods received from head office	4,78,500
		6,66,000
	Less:(a) Cost of Branch Sales (Rs. 7,20,000 x 3/4) 5,40,000	
	(b) Goods lost-in-transit 8,010**	5,48,010
	Closing Stock	1,17,990
3.	Stock Reserve at Branch [Rs.1,15,500x10/110]	10,500
4.	Gross profit of Head Office (10,80,000 x 33.333%)	3,60,000
	Add: Loading on goods sent to branch [4,78,500x10/110]	43,500
		4,03,500

16. (a) Calculation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} \times 100$$

$$= \frac{45,000 + 90,000}{4,50,000} \times 100 = 30\%$$

(b) Calculation of policy amount to cover loss of profit

	Rs.
Turnover in the last financial year	4,50,000
Add: 25% increase in turnover	1,12,500
	5,62,500
Gross profit on increased turnover (5,62,500 x 30%)	1,68,750
Add: Additional standing charges	31,250
Policy Amount	2,00,000

Therefore, the trader should go in for a loss of profit policy of Rs. 2,00,000.

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* Goods in transit have been included in H.O. Stock.

** It is presumed that goods lost in transit includes those which were sent by the branch to customers.

17. Partners' Current Account

	Particulars	A	B	C		Particulars	A	B	C
1.1.2009		Rs.	Rs.	Rs.	1.1.2009		Rs.	Rs.	Rs.
To	Balance b/d	---	----	5,000	By	Balance b/d	29,000	20,000	--
To	A's Current A/c – goodwill	-	20,000	10,000	By	B's Current A/c – goodwill	20,000	--	--
To	A's Current A/c – Revaluation Profit	-	12,000	6,000	By	C's Current A/c – goodwill	10,000	-	-
To	A's Capital A/c – transfer	80,000	-	-	By	B's Current A/c – Revaluation profit	12,000	-	-
					By	C's Current A/c – Revaluation profit	6,000		
					By	Joint Life Policy A/c (Rs.26,000 – Rs.20,000)	3,000	2,000	1,000
					By	Balance c/d		10,000	20,000
		80,000	32,000	21,000			80,000	32,000	21,000
1.1.2009					31.12.2009				
To	Balance b/d		10,000	20,000	By	Profit & Loss Appropriation A/c		17,617	8,808
31.12.2009					By	Balance c/d		7,383	19,192
To	Drawings A/c		15,000	8,000					
			25,000	28,000				25,000	28,000
1.1.2010					30.6.2010				
To	Balance b/d		7,383	19,192	By	Realisation A/c -profit		12,573	6,287
To	B's Capital A/c – transfer		5,190	---	By	C's Capital A/c - transfer		---	12,905
			12,573	19,192				12,573	19,192

Partners' Capital Accounts

	Particulars	A	B	C		Particulars	A	B	C
1.1.2009		Rs.	Rs.	Rs.	1.1.2009		Rs.	Rs.	Rs.
To	A's Executors A/c	1,40,000	----	---	By	Balance b/d	60,000	40,000	20,000
To	Balance c/d	---	40,000	20,000	By	A's Current A/c	80,000	--	--
		1,40,000	40,000	20,000			1,40,000	40,000	20,000
31.12.2009					1.1.2009				
To	Balance c/d		40,000	20,000	By	Balance b/d		40,000	20,000
			40,000	20,000				40,000	20,000

30.6.2010					1.1.2010				
To	C's Current A/c – transfer		---	12,905	By	Balance b/d		40,000	20,000
To	Bank A/c		45,190	7,095	30.6.2010				
					By	B's Current A/c – transfer		5,190	---
			45,190	20,000				45,190	20,000

A's Executors Account

Date		Particulars	Rs.	Date		Particulars	Rs.
1.1.2009	To	Bank A/c	20,000	1.1.2009	To	A's Capital A/c	1,40,000
1.1.2009	To	Balance c/d	1,20,000				
			1,40,000				1,40,000
30.6.2009	To	Bank A/c	20,000	1.1.2009	By	Balance b/d	1,20,000
30.6.2009	To	Balance c/d	1,03,000	30.6.2009	By	Interest A/c	3,000
			1,23,000				1,23,000
31.12.2009	To	Bank A/c	20,000	1.7.2009	By	Balance b/d	1,03,000
31.12.2009	To	Balance c/d	85,575	31.12.2009	By	Interest A/c	2,575
			1,05,575				1,05,575
30.6.2010	To	Bank A/c	87,715	1.1.2010	By	Balance b/d	85,575
				30.6.2010	By	Interest A/c	2,140
			87,715				87,715

Working Notes:

(1) Adjustment in regard to Goodwill

Partners		A	B	C
Share of goodwill before death	(Rs.)	30,000	20,000	10,000
Share of goodwill after death	(Rs.)	-	40,000	20,000
Gain (+)/Sacrifice (-)	(Rs.)	(30,000)	20,000	10,000
		Cr.	Dr.	Dr.

(2) Adjustment in regard to revaluation of assets

Partners		A	B	C
Share of profit on revaluation credited to all the partners	(Rs.)	18,000	12,000	6,000
Debited to the continuing partners	(Rs.)	-	24,000	12,000
	(Rs.)	(18,000)	12,000	6,000
		Cr.	Dr.	Dr.

(3) Ascertainment of Profit for the year ended 31.12.2009

	Rs.	*Rs.*
Profit before charging interest on balance due to A's executors		32,000
Less: Interest payable to A's executors:		
from 1.1.2009 to 30.6.2009	3,000	
From 1.7.2009 to 31.12.2009	2,575	5,575
Balance of profit to be shared by B and C		26,425

(4) Ascertainment of Profit for the year ended 31.12.12009

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Account – B	40,000	Sundry Assets (balancing figure)	1,19,000
Capital Account – C	20,000	Partners' Current A/cs –B	7,383
A's Executors A/c	85,575	Partners' Current A/cs- C	19,192
	1,45,575		1,45,575

(5) Realisation Account

		Rs.			*Rs.*
To	Sundry Assets A/c	1,19,000	By	Bank A/c (purchase consideration)	1,40,000
To	Interest A/c – A's Executors	2,140			
To	Partners' Capital A/cs – B	12,573			
To	Partners' Capital A/cs – C	6,287			
		1,40,000			1,40,000

18. The proposals will be evaluated and vendor will be selected considering the following criteria:

1. Quantum of services provided and whether the same matches with the requirements of the hospital.
2. Reputation and background of the vendor.
3. Comparative costs of the various propositions.
4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
5. Assurance of quality, confidentiality and secrecy.
6. Data storage and processing facilities.

19. (a) Para 17 of AS 1 'Disclosure of Accounting Policies', states that financial statements should disclose all material items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omission or misstatement. From a positive perspective, materiality has to do with the significance of an item or event to warrant attention in the accounting process. From a negative view point, materiality is critical because otherwise a great deal of time might be spent on trivial matters in the accounting process. Individual judgments are required to assess materiality, or to decide what the appropriate minimum quantitative criteria are to be set for given situations. What is material to one organization, may not be material for another organization.

For example, a long term investor is interested in the current value of fixed asset like building, while the banker may not consider it significant for a short-term loan. Similarly a pair of scissors, ball pens, sharpeners, waste-paper baskets could be used for a number of years but still it is treated as an expense and not an asset. The omission of "paise" in the financial statements is also due to their insignificant effect to the users of the financial statement in making a decision.

(b) Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. AS 9 on "Revenue Recognition" states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at Net-realisable value."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

(c) As per para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

(a) the direct method whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial enterprise) and other items in the statement of profit and loss for:

   (i) changes during the period in inventories and operating receivables and payables;

   (ii) other non-cash items; and

   (iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes, and unrealized foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

(d) According to para 14 of AS 7 (Revised) 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when: (i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and (ii) the amount of the incentive payment can be measured reliably. In the given problem, the contract has not even begun and hence the contractor (Mr. X) should not recognize any revenue of this contract.

(e) When to Recognize Revenue:

- Revenue recognition is mainly concerned with the **timing of recognition of revenue** in the profit and loss account.
- Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of services, as the case may be even though payments are made by installments.
- The amount of revenue is usually determined by agreement between the parties to the transaction

It may be appropriate to recognize revenue only when it is reasonably certain that the ultimate collection will be made.

In the given case, SM company wants to suddenly recognize Insurance claim because it has increased over the previous year. But, there are uncertainties involved in the settlement of the claim. Also, the claim does not seem to be in the course of ordinary activity of the company.

Hence, SM company is not advised to recognize the Insurance claim as revenue.

(f) As per Para 11 of AS 12 "Accounting for Government Grants", government grant that becomes refundable should be treated as an extraordinary item. The amount refundable in respect of a government grant related to revenue is applied first against any unamortized deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement. The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset. Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfillment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve.

(g) According to AS 16,

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

What it Includes- Borrowing costs may include: (i) interest and commitment charges on bank borrowings and other short-term and long-term borrowings; (ii) amortization of discounts or premiums relating to borrowings; (iii) amortization of ancillary costs incurred in connection with the arrangement of borrowings; (iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements; and (v) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Treatment as per AS 16

- **When to capitalize**- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset• should be capitalized as part of the cost of that asset.

  The capitalization of borrowing costs as part of the cost of a qualifying asset should commence when the conditions as mentioned below as specified in AS 16 are satisfied.

- Expenditure for the acquisition, construction or production of a qualifying asset is being incurred
- Borrowing costs are being incurred
- Activities that are necessary to prepare the asset for its intended use or sale are in progress
- **When to expense off**- Other borrowing costs should be recognized as an expense in the period in which they are incurred.

(h) As per Para 63 of AS 26 "Intangible Assets", the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.

XYZ Ltd. has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified under AS 26. Accordingly, XYZ Ltd. would be required to restate the carrying amount of intangible asset as on 1.4.2007 at Rs.96 lakhs less Rs. 28.8 lakhs (Rs. 9.6 lakhs × 3 years) = Rs. 67.2 lakhs. If amortisation had been as per AS 26, the carrying amount would have been Rs.67.2 lakhs. The difference of Rs. 4.8 lakhs i.e. (Rs. 72lakhs – 67.2 lakhs) would be required to be adjusted against the opening balance of revenue reserves. The carrying amount of Rs.67.2 lakhs would be amortized over 7 (10 less 3) years in future.

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

(i) Disclosure requirement as per AS 10

1. Gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements.
2. Expenditure incurred on account of fixed assets in the course of construction or acquisition.
3. Revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of any indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

(j) For the purpose of accounting AS 19 'Leases', classifies the lease into two categories as follows:

(i) Finance Lease

(ii) Operating Lease

Finance Lease:It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership. As per para 8 of the standard, in following situations, the lease transactions are called Finance lease:

- The lessee will get the ownership of leased asset at the end of the lease term.
- The lessee has an option to buy the leased asset at the end of the lease term at price, which is lower than its expected fair value at the date on which option will be exercised.
- The lease term covers the major part of the life of asset even if title is not transferred.
- At the beginning of lease term, present value of minimum lease rental covers the initial fair value.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

Operating Lease: It is lease, which does not transfer all the risks and rewards incidental to ownership.

20. (a) In accordance with paras 8 and 9 of AS 2, the cost of conversion include a systematic allocation of fixed and variable overheads that are incurred in converting materials into finished goods. The allocation of fixed overheads for the purpose of their inclusion in the cost of conversion is based on normal capacity of the production facilities.

Cost per kg. of finished goods:

		Rs.
Material Cost		200
Direct Labour	40	
Direct Variable Production Overhead	20	
Fixed Production Overhead $\left(\frac{20,00,000}{2,00,000}\right)$	10	70
		270

Hence the value of 4,000 kgs of finished goods = 4,000 kgs x Rs. 270 = Rs. 10,80,000

(b) As per Para 8.2 and 13 of Accounting Standard 4 'Contingencies and Events occurring after the Balance Sheet Date, assets and liabilities should be adjusted for events occurring after the date of balance sheet, that provide additional evidence to assist estimation of amounts relating to conditions existing at the Balance Sheet Date. "Therefore, in the given case, full provision for bad debt amounting Rs.2 lakhs should be made to cover the loss arising due to insolvency in the final accounts for the year ended 31st March, 2010 as earthquake took place before the balance sheet date."

(c) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', as a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

Estimates may have to be revised, if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments.

As per the standard, the effect of a change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate. Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. Thus revision of an estimate by its nature, i.e. the difference of Rs. 2 lakhs is not a prior period item.

Therefore, in the given case expenses amounting Rs.2,00,000 (i.e. Rs.9,00,000 – Rs.7,00,000) relating to the previous year recorded in the current year, should not be regarded as prior period item.

(d) As per AS 12 'Accounting for Government Grants', Government grants sometimes become refundable because certain conditions are not fulfilled. A government grant that becomes refundable is treated as an extraordinary item as per AS 5.

The amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement.

In the present case, the amount of refund of government grant should be shown in the profit & loss account of the company as an extraordinary item during the year 2009-10

(e) As per Para 4.1 of AS 9 "Revenue Recognition", revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

In the given case, M/s Prima Co. Ltd. should record the sales at gross value of Rs.50,000. Discount of Rs.8,000 in price and goods returned worth Rs.7,000 are to be adjusted by suitable provisions. M/s Prime Co. Ltd. might have sent the credit note of Rs. 15,000 to M/s Y & Co. to account for these adjustments. The contention of the accountant to book the sales for Rs.35,000 is not correct.

(f) As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Sundry creditors is a monetary item, hence should be valued at the closing rate i.e, Rs.48 at 31st March, 2010 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of Rs.5 (48-43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2010 and is not to be adjusted against the cost of raw-materials. In the subsequent year, the company would record an exchange gain of Re.1 per US dollar, i.e., the difference between Rs.48 and Rs.47 per Us dollar. Hence, the accounting treatment adopted by the company is incorrect.

(g) As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment[•] amounts to at least substantially all of the fair value of leased asset. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. In the given case, the implicit rate of interest is given at 15%. The

[•] In calculating the present value of the of minimum lease payments, the discount rate is the interest rate implicit in the lease.

present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

Annuity Factor (Year 1 to Year 5 Flows Rs.3 lakhs each year)	Rs.3.36 lakhs (approx.)
Present Value of minimum lease payments	Rs.10.08 lakhs (approx.)

Thus present value of minimum lease payments is Rs.10.08 lakhs and the fair value of the machine is Rs.30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for five years. Therefore lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

(h) As per Para 12.1 of AS 10 "Accounting for Fixed Assets" expenditure that increases the future benefits from the existing assets, is included in the gross book value.

Hence, in the given case, repairs of Rs.2.50 lacs and partial replacement of the part of the machinery should be charged to Profit & Loss Account. Rs.7 lacs incurred on a part of the machinery, which will increase the efficiency, should be capitalized.

(i)

Particulars	Rs.(in lakhs)
Cost of the plant	500
Less: CENVAT	10
	490
Less: Subsidy	98
Depreciable Value	392

(j) As it is stated in the question that financial statements for the year ended 31st March, 2010 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On these bases, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to Rs. 20,000 in the financial statements for the year ended 31st March, 2010.

(k) No. of Bonus Issue 20,00,000 x 2 = 40,00,000 shares

Earnings per share for the year 2010 $\frac{\text{Rs. } 60{,}00{,}000}{(20{,}00{,}000 + 40{,}00{,}000)}$ = Re. 1.00

Adjusted earnings per share for the year 2009 $\frac{\text{Rs. } 18{,}00{,}000}{(20{,}00{,}000 + 40{,}00{,}000)}$ = Re. 0.30

Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year was 2009, the earliest period reported.

NOTE : Accounting Standards 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 16, 19, 20 26, 29 are covered in the syllabus. ASI 2 & 11 have been withdrawn.