PAPER – 5 : ADVANCED ACCOUNTING

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

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

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

Question 1

Answer the following questions:

(a) A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost ₹ 1,50,000. Economic life of the machine is 5 years and output from the machine are estimated as 40,000 units, 50,000 units, 60,000 units, 80,000 units and 70,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate. Compute the following:

(i) Annual Lease Rent

(ii) Lease Rent income to be recognized in each operating year and

(iii) Depreciation for 3 years of lease.

(b) Shama was working with ABC Ltd. drawing monthly salary of ₹ 25,000 per month. She went on maternity leave with pay for 7 months i.e. from 1-01-2017 to 31-7-17. Her salary for 3 months was not provided for in financial statements for F.Y. 2016-17 due to omission. When she joined after leave period, the whole salary for 7 months was paid to her. You are required to:

(i) Pass the necessary journal entries in F.Y. 2017-18 to record the above transaction as per accounting standard-5 and state reason for the same.

(ii) Would the treatment have been different, if Shama was terminated on 01-01-2017 and was reinstated in service by the court w.e.f. 01-08-2017 with instruction to pay Shama salary for the intervening period i.e. 1-01- 2017 to 31-07-2017.

(c) With reference to AS-29, how would you deal with the following in the annual accounts of the company at the Balance Sheet dates:

(i) An organization operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and ten percent arise through the extraction of oil. At the balance sheet date, the rig has been constructed but no oil has been extracted.

(ii) During 2016-17 Ace Ltd. gives a guarantee of certain borrowings of Brew Ltd., whose financial condition at that time is sound. During 2017-18, the financial

condition of Brew Ltd. deteriorates and at 31st Dec. 2017 it goes into Liquidation. (Balance Sheet date 31-3-17)

(d) RC Ltd. is showing an intangible asset at ₹ 72 lakhs as on 31-3-18. This asset was acquired for ₹ 120 lakhs as on 01-04-12 and the same was used from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years, on straight line basis.

Comment on the accounting treatment of asset with reference to AS- 26 and also give the necessary rectification journal entry. ***(4 parts x 5 Marks= 20 Marks)***

Answer

(a) (i) Annual lease rent

Total lease rent

$$= 130\% \text{ of ₹ } 1{,}50{,}000 \times \frac{\text{Output during lease period}}{\text{Total output}}$$

= 130% of ₹ 1,50,000 x (40,000 +50,000+ 60,000)/(40,000 + 50,000 + 60,000 + 80,000 + 70,000)

= 1,95,000 x 1,50,000 units/3,00,000 units = ₹ 97,500

Annual lease rent = ₹ 97,500 / 3 = ₹ 32,500

(ii) Lease rent Income to be recognized in each operating year

Total lease rent should be recognised as income in proportion of output during lease period, i.e. in the proportion of 40 : 50 : 60.

Hence income recognised in years 1, 2 and 3 will be as:

Year 1 ₹ 26,000,

Year 2 ₹ 32,500 and

Year 3 ₹ 39,000.

(iii) Deprecation for three years of lease

Since depreciation in proportion of output is considered appropriate, the depreciable amount ₹ 1,50,000 should be allocated over useful life 5 years in proportion of output, i.e. in proportion of 40 : 50 : 60 : 80 : 70 .

Depreciation for year 1 is ₹ 20,000, year 2 = 25,000 and year 3 = 30,000.

(b) As per AS 5 "Net Profit or Loss for the Period", Prior Period Items and Changes in Accounting Policies, the term 'prior period items', refers to 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. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss so that their impact on the current profit or loss can be perceived. Hence, in this case salary paid to Shama for 3 months i.e 1.1.2017 to 31.3.2017 ₹ 75,000 will be classified as prior period item in FY 2017-18 and following journal entry shall be passed:

(i) Journal entry in FY 2017-18

Salary A/c (Rs 25,000 x 4)	Dr.	1,00,000	
Prior period item (Rs 25,000 x 3)	Dr.	75,000	
To Bank A/c			1,75,000

(Salary related to 7 months paid out of which 3'months' salary is prior period item)

Alternative Entry

Salary A/c (prior period item)	Dr.	75,000	
To Bank A/c			75,000

(Salary related to 3 months i.e. January, 2017 to March 2017 paid in 2017-2018)

Salary A/c	Dr.	1,00,000	
To Bank A/c			1,00,000

(Salary related to 4 months paid on 1.8.2017 for April to July, 2017)

(ii) AS 5 inter alia states that the term 'prior period items' does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period. Accordingly, in the second case though Shama was terminated on 1.1.2017 i.e. in 2016-2017, yet she was reinstated due to court's order in 2017-2018, with the instruction by the court to pay the salary for the intervening period i.e. with retrospective effect from January, 2017. The adjustment of salary of ₹ 75,000 (for January 2017 to March, 2017) would not be considered as prior period item and will be accounted for in the books as current year expense. Thus the entire amount of Salary of ₹ 1,75,000 for January, 2017 to July, 2017 is a current year expense only.

Salary A/c (Rs 25,000 x 7)	Dr.	1,75,000	
To Bank A/c			1,75,000

(Salary related to 7 months paid i.e. for the period 1.1.2017 to 31.7.2017)

(c) (i) The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of ninety per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig.

However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date.

Ten per cent of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

(ii) As per AS 29, for a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation.

The obligating event is the giving of the guarantee by Ace Ltd. for certain borrowings of Brew Ltd., which gives rise to an obligation. No outflow of benefits is probable at 31 March 2017.Thus no provision is recognized. The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

During 2017-18, the financial condition of Brew Ltd. deteriorates and finally goes into liquidation. The obligating event is the giving of the guarantee, which gives rise to a legal obligation. At 31 March 2018, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Thus, provision is recognized for the best estimate of the obligation.

(d) As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on 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. The Company has been following the policy of amortization of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, the company would be required to restate the carrying amount of intangible asset as on 31.3.2018 at ₹ 48 lakhs i.e. ₹ 120 lakhs less ₹ 72 lakhs (₹ 120 Lakhs / 10 years x 6 years = 72 Lakhs). The difference of ₹ 24 Lakhs (₹ 72 lakhs – ₹ 48 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 48 lakhs will be amortized over remaining 4 years by amortizing ₹ 12 lakhs per year.

The necessary journal entry (for rectification) will be

Revenue Reserves	Dr.	₹ 24 Lakhs	
To Intangible Assets			₹ 24 Lakhs

(Adjustment to reserves due to restatement of the carrying amount of intangible asset)

Question 2

P, Q and R are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March, 2018 when their Balance Sheet was as under:

Liabilities	Amount	Assets		Amount
Capital Accounts:		Land & Building		90,000
P	40,000	Plant & Machinery		30,000
Q	40,000	Furniture-		17,000
General Reserve	41,000	Investments		10,000
R's Loan A/c	10,000	Book Debts	40,000	
Loan from D	80,000	Less: Prov. for bad debts	(4,000)	36,000
Trade Creditors	20,000	Stock		24,000
Bills Payable	8,000	Bank		9,000
Outstanding Salary	5,000	Deferred Advertisement Expenses		8,000
		Capital withdrawn		20,000
Total	2,44,000	Total		2,44,000

The following information is given to you:

(i) *Realisation expenses amounted to ₹ 12,000 out of which ₹ 2,000 was borne by P.*

(ii) *A creditor agreed to takeover furniture of book value ₹ 8,000 at ₹ 7,200. The rest of the creditors were paid off at a discount of 6.25%.*

(iii) *The other assets realized as follows:*

Furniture	-	Remaining taken over by R at 90% of book value
Stock	-	Realised 120% of book value
Book Debts	-	₹ 8,000 of debts proved bad, remaining were fully realized
Land & Building	-	Realised ₹ 1,10,000
Investments	-	Taken over by P at 15% discount

(iv) *For half of his loan, D accepted Plant & Machinery and ₹ 5,000 cash. The remaining amount was paid at a discount of 10%.*

(v) *Bills payable were due on an average basis of one month after 31st march, 2018, but they were paid immediately on 31st March @ 6% discount "per annum".*

Prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form in the books of Partnership firm. **(16 Marks)**

Answer

Realization Account

		₹			₹
To	Land and Building	90,000	By	Provision for bad debts	4,000
To	Plant and Machinery	30,000	By	Loan from D	80,000
To	Furniture	17,000	By	Trade creditors	20,000
To	Investments	10,000	By	Bills payable	8,000
To	Book debts	40,000	By	Outstanding salary	5,000
To	Stock	24,000	By	R - Furniture taken over (9,000 x .9)	8,100
To	Bank (Realization expenses)	10,000	By	Bank A/c	
				Stock Realized 28,800	
To	P – Realization expenses	2,000		Land & Building 1,10,000	
				Debtors 32,000	1,70,800
To	Bank A/c -				
	Bill payable	7,960	By	P (Investment taken over)	8,500
	D's Loan	5,000			
	D's Loan	36,000			
	Creditors	12,000			
	Salary	5,000			
To	Profit trs/f to partners' capital Accounts				
	P 6,176				
	Q 6,176				
	R 3,088	15,440			
		3,04,400			3,04,400

Bank Account

		₹			₹
To	Balance b/d	9,000	By	Realization A/c (payment of liabilities: 7,960+ 5,000 + 36,000 + 10,000 + 12,000 + 5,000)	75,960

To	Realization A/c (assets realized)	1,70,800	By	P	52,876
To	R	8,412	By	Q	59,376
		1,88,212			1,88,212

Partners' Capital Accounts

		P	Q	R			P	Q	R
		₹	₹	₹			₹	₹	₹
To	Balance b/d.			20,000	By	Balance b/d	40,000	40,000	
To	Deferred Advertisement expenses written off	3200	3,200	1,600	By	R's Loan			10,000
To	Realization A/c (Investment taken over)	8,500			By	General Reserve	16,400	16,400	8,200
To	Realization A/c (Furniture taken over)			8,100	By	Realisation A/c (expense)	2,000		
To	Bank A/c	52,876	59,376		By	Realization A/c (profit)	6,176	6,176	3,088
					By	Bank			8,412
		64,576	62,576	29,700			64,576	62,576	29,700

Working Notes:

1. **Payment to Bills Payable**

Particulars	Amount (₹)
Bills Payable as per Balance Sheet	8,000.00
Less: Discount for early payment {8,000 x 6% x (1/12)}	40.00
Amount Paid in Cash	7,960.00

2. **Payment to D's Loan**

Particulars		Amount (₹)
D's Loan as per Balance Sheet	80,000.00	
50% of Loan adjusted as below:		
Plant & Machinery accepted at Book Value (₹ 30,000) and ₹ 5,000 in cash.		5,000.00

Balance 50% of Loan adjusted as below:	
In cash after allowing discount of 10% i.e. ₹ 40,000 – ₹ 4,000 = ₹ 36,000.	36,000.00

3. Payment to Trade Creditors

Particulars	Amount (₹)
Trade Creditors as per Balance Sheet	20,000.00
Less: Furniture of Book Value ₹ 8,000 accepted at value ₹ 7,200	7,200.00
	12,800.00
Less: Discount @ 6.25%	800.00
Amount paid in Cash	12,000.00

4. Furniture taken over by R

Particulars	Amount (₹)
Furniture as per Balance Sheet	17,000.00
Less: Furniture of Book Value ₹ 8000 accepted by trade creditors	8,000.00
	9,000.00
Less: 10% of Book Value	900.00
Value of Furniture taken over by R	8,100.00

Question 3

(a) Sports Ltd. issued 4,00,000 shares of ₹ 10 each at a premium of ₹ 5. The entire issue was undertaken as follows:

P - 1,20,000 shares (Firm underwriting 9,000)

Q - 60,000 shares (Firm underwriting 6,000)

R - 1,80,000 shares (Firm underwriting 12,000)

S - 40,000 shares (Firm underwriting 3,000)

Total subscriptions received by the company (excluding firm underwriting) were 3,60,000 shares.

The marked applications (excluding firm underwriting) were as follows:

P - 75,000

Q - 47,000

R - 1,25,000

S - 43,000

Also, the underwriting contract provides that credit of marked applications and benefit of firm underwriting is given to individual underwriter.

Determine the liability of each underwriter (number of shares).

(b) In the books of M/s. Raja Ltd., there are 8% debentures with opening balance (01-04-2017) of ₹ 40,00,000 divided into 40,000 fully paid debentures of ₹ 100 each issued at par.

- *Interest on debentures is paid half-yearly on 30th of September and 31st March every year.*
- *The company purchased its own 7,500 debentures on 30-04-2017 @ 97 (ex-interest) per debenture.*
- *The company cancelled 4,000 debentures on 31-12-2017 out of 7500 debentures acquired on 30-04-2017.*
- *The company resold 2,000 of its own debentures in the market @ ₹ 105 (cum-interest) per debenture on 28-02-2018.*

You are required to prepare:

(i) Own debenture account

(ii) Interest on debentures account ***(8 + 8 =16 Marks)***

Answer

(a) Statement showing liability of underwriters

		No. of shares			
	P	*Q*	*R*	*S*	*Total*
Gross Liability	1,20,000	60,000	1,80,000	40,000	4,00,000
Less: Marked applications	(75,000)	(47,000)	(1,25,000)	(43,000)	(2,90,000)
Balance	45,000	13,000	55,000	(3,000)	1,10,000
Less: Surplus of S allocated to P, Q and R in the ratio of 2:1:3	(1,000)	(500)	(1,500)	3,000	
Balance	44,000	12,500	53,500	-	
Less: Unmarked applications excluding firm underwriting (70,000 in 440:125:535)	(28,000)	(7,955)	(34,045)		70,000
Balance	16,000	4,545	19,455		40,000
Less: Firm underwriting	(9,000)	(6,000)	(12,000)	(3,000)	30,000
Balance	7,000	(1,455)	7,455	(3,000)	10,000

Less: Surplus of Q and S allocated to P, and R in the ratio of (i.e. 4,455 in 2:3)	(1,782)	1,455	(2,673)	3,000	
Net Liability	5,218	-	4,782	-	
Add: Firm underwriting	9,000	6,000	12,000	3,000	30,000
Total Liability	14,218	6,000	16,782	3,000	40,000

Unmarked Applications = Total applications less marked applications

3,60,000 – (75,000+47,000+ 1,25,000+ 43,000) = 70,000

Note: Unmarked applications are allocated among the underwriters in Gross liability less marked application ratio i.e. 44,000: 12,500:53,500 as credit of marked applications is given to underwriters.

(b) **In the books of M/s Raja's**

(i) **Own Debentures Account**

		₹			₹
30.4.17	To Bank	7,27,500	31.12.17	By 8% Debentures A/c	4,00,000
31.12.17	To Capital Reserve (Profit on cancellation)	12,000	28.2.18	By Bank- Resale of 2,000 debentures@105 (₹ 2,10,000 less interest ₹ 6,667)	2,03,333
28.2.18	To Profit and Loss A/c (Profit on resale)	9,333	31.3.18	By Balance c/d (1,500 at ₹ 97)	1,45,500
		7,48,833			7,48,833

(ii) **Interest on Debentures Account**

		₹			₹
30.4.17	To Bank A/c (Interest for 1 months on 7,500 debentures)	5,000	31.3.18	By Profit and Loss A/c	3,12,000
30.9.17	To Interest on own debentures A/c (Interest for 5 months on 7,500 debentures)	25,000			

30.9.17	To	Bank A/c (Interest for 6 months on 32,500 debentures)	1,30,000			
31.12.17	To	Interest on own debentures A/c (Interest for 3 months on 4,000 debentures)	8,000			
28.02.18	To	Interest on own debentures (Interest for 5 months on 2,000 Debentures resold)	6,667			
31.3.18	To	Interest on own debentures A/c (Interest for 6 months on 1,500 debentures)	6,000			
31.3.18	To	Bank A/c (Interest for 6 months on 32,500 debentures and 1 month on 2,000 debentures)	131,333			
			312,000			312,000

Working Notes:

31.12.17	**Capital Reserve** Cancellation of 4,000 own debentures Face value ₹ 100 less acquired at ₹ 97= 3 × 4,000	12,000
28.2.18	**Profit on Resale of Debentures** Resale of 2,000 Debentures sold for 105 (cum-interest) acquired for ₹ 97 (ex-interest) [(2,000 ×105)-(5 month interest i.e 6,667) less (2,000x97)]	9,333

Question 4

The Summarised Balance Sheet of M/s. NTC Limited as on 31st March 2018 is given below:

Liabilities	*Amount (₹)*	*Amount (₹)*
Share Capital		
15000 equity shares of ₹ 100 each	*15,00,000*	

10000, 7% cumulative preference shares of ₹100 each	*10,00,000*	*25,00,000*
Reserves & Surplus		
General Reserve	*3,00,000*	
Profit & Loss A/c	*(4,20,000)*	*(1,20,000)*
Non-current Liabilities		
Loan from Directors		*2,20,000*
Current Liabilities		
Trade Payables	*11,30,000*	
Proposed Dividend	*1,10,000*	
Expenses Payable	*1,60,000*	*14,00,000*
Total		*40,00,000*
Assets		
Non-Current Assets		
Tangible Assets		
Plant & Machinery	*15,00,000*	
Building	*2,75,000*	*17,75,000*
Intangible Assets		
Patents		*2,00,000*
Current Assets		
Stock	*7,15,000*	
Trade Receivable	*11,35,000*	
Bank	*1,75,000*	*20,25,000*
Total		*40,00,000*

Due to disturbed market conditions, the company suffered losses since last 3 years and hope for a better position in the future. The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

(1) Equity shares to be converted into 1,50,000 shares of ₹10 each.

(2) Equity shareholders to surrender to the company 80 percent of their holdings.

(3) Preference shareholders forego their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 9% preference shares.

(4) Trade payables agree to reduce their claim by 40% in consideration of their getting shares of ₹2,50,000 out of the surrendered equity shares.

(5) Directors agree to forego the amounts due on account of loan.

(6) Surrendered shares not otherwise utilized to be cancelled

(7) Assets to be reduced as under:

	₹
Patent by	*2,00,000*
Plant & Machinery by	*2,00,000*
Inventory by	*1,70,000*

(8) Trade receivables to the extent of ₹ 8,50,000 are considered good.

(9) Revalued figures for building is accepted at ₹ 3,50,000.

(10) Proposed dividend is paid to the equity shareholders.

(11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.

(12) Expenses of reconstruction amounted to ₹ 30,000

(13) Further 20,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the company. ***(16 Marks)***

Answer

Journal Entries

			₹
		Dr.	***Cr.***
Equity Share Capital (₹ 100) A/c	Dr.	15,00,000	
To Share Surrender A/c			12,00,000
To Equity Share Capital (₹ 10) A/c			3,00,000
(Conversion of all the equity shares into 1,50,000 fully paid equity shares of ₹ 10 each and surrender of 80% of such sub-divided shares as per capital reduction scheme)			
7% Preference Share Capital (₹ 100 each) A/c	Dr.	10,00,000	
To 9% Preference Share Capital (₹ 100 each) A/c			10,00,000
(Conversion of 7% Preference Share Capital into 9% Preference Share Capital)			
Trade Payables A/c	Dr.	4,52,000	
To Reconstruction A/c			4,52,000
(Trade payables agreed to reduce their claim by 40%)			

Share Surrender A/c	Dr.	12,00,000	
To Reconstruction A/c			9,50,000
To Equity Share Capital Account (₹ 10)			2,50,000
(After issue of Shares for ₹ 2,50,000, the balance in shares surrender account transfered to Reconstruction A/c)			
Loan from Directors A/c	Dr.	2,20,000	
To Reconstruction A/c			2,20,000
(Directors' waived their loan)			
Reconstruction A/c		10,05,000	
To Patent A/c	Dr.		2,00,000
To Inventory A/c	Dr.		1,70,000
To Trade Receivables A/c	Dr.		2,85,000
To Bank A/c (Reconstruction expenses)	Dr.		30,000
To Profit and Loss A/c (after setting off with reserves)*	Dr.		1,20,000
To Plant & Machinery A/c			2,00,000
(Writing off losses and reduction in the values of assets as per scheme of reconstruction)			
Building A/c	Dr.	75,000	
To Reconstruction A/c			75,000
(Appreciation made in the value of building as per scheme of reconstruction)			
Proposed Dividend A/c	Dr.	1,10,000	
To Bank A/c			1,10,000
(Payment of proposed dividend)			
Bank A/c	Dr.	2,00,000	
To Equity Share Capital A/c (₹ 10)			2,00,000
(Issue of 20,000 equity shares)			
Reconstruction A/c	Dr.	6,92,000	
To Plant & Machinery A/c			6,92,000
(Being surplus utilized in writing off the value of plant)			

* Alternative considering the amount of profit and loss A/c transferred Reconstruction A/c as ₹ 4,20,000 (without setting of general reserve) is also possible.

Balance Sheet of M/s NTC Ltd. (and Reduced) as on 31st March, 2018

	Particulars	Notes No.	₹ '000
	Equity and Liabilities		
1	Shareholders' funds		
	a) Share capital	1	17,50,000
	b) Reserves and Surplus		
3	Non-current liabilities		
	Long-term borrowings		-
4	Current liabilities		
	a) Trade payables		6,78,000
	b) Expenses payables		1,60,000
	Total		25,88,000
	Assets		
1	Non-current assets		
	a) Fixed assets		
	i) Tangible assets	2	9,58,000
2	Current assets		
	a) Inventories (7,15,000-1,70,000)		5,45,000
	b) Trade receivables		8,50,000
	c) Cash and cash equivalents		2,35,000
	Total		25,88,000

Notes to Accounts

		₹
1.	Issued, subscribed Share Capital	
	75,000 Equity shares of ₹ 10 each (3,00,000 +2,00,000+2,50,000)	7,50,000
	10,000 Preference share of ₹ 100 each	10,00,000
		17,50,000
	(25,000 equity shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment received in cash)	
2.	Tangible assets	
	Plant & Machinery (15,00,000 -2,00,000- 6,92,000)	6,08,000

	Building	3,50,000
		9,58,000

Working Notes :

1. **Reconstruction Account** (₹ in lacs)

		₹			₹
To	Patent A/c	2,00,000	By	Shares surrender	9,50,000
To	Inventory A/c	1,70,000	By	Trade payables	4,52,000
To	Trade Receivables A/c	2,85,000	By	Loan to director	2,20,000
To	Bank A/c (Reconstruction expenses)	30,000	By	Building	75,000
To	Profit and Loss A/c	1,20,000			
To	Plant & Machinery A/c	2,00,000			
To	Plant & Machinery (Balancing fig.)	6,92,000			
		16,97,000			16,97,000

2. Cash at bank as on 31st March, 2018 (after reconstruction)

	₹
Cash at bank (before reconstruction)	1,75,000
Add: Proceeds from issue of equity shares	2,00,000
	3,75,000
Less: Payment made for proposed dividend	1,10,000
Less: expenses	30,000
	2,35,000

Balance Sheet of M/s NTC Ltd. (and Reduced) as on 31st March, 2018

	Particulars	Notes No.	₹ '000
	Equity and Liabilities		
1	Shareholders' funds		
	(a) Share capital	1	17,50,000
	(b) Reserves and Surplus		3,00,000
2	Non-current liabilities		
	Long-term borrowings		-

3 Current liabilities		
(a) Trade payables		6,78,000
(b) Expenses payables		1,60,000
Total		28,88,000
Assets		
1 Non-current assets		
(a) Fixed assets		
Tangible assets	2	12,58,000
2 Current assets		
(a) Inventories (7,15,000-1,70,000)		5,45,000
(b) Trade receivables		8,50,000
(c) Cash and cash equivalents		2,35,000
Total		28,88,000

Notes to Accounts

		₹
1.	Issued, Subscribed Share Capital	
	75,000 Equity shares of ₹ 10 each(3,00,000 +2,00,000+2,50,000)	7,50,000
	10,000 Preference share of ₹ 100 each	10,00,000
		17,50,000
	(25,000 equity shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment received in cash)	
2.	Tangible assets	
	Plant & Machinery (15,00,000 - 5,92,000)	9,08,000
	Building	3,50,000
		12,58,000

Question 5

(a) *From the following information prepare the Profit & Loss A/c of Indus Bank Ltd. for the year ending 31st March, 2018. Also give necessary schedules.*

Particulars	*Figures in '000*
Interest earned on term loans	*2,550*
Interest earned on term loans classified as NPA	*731*

Interest received on term loans classified as NPA	*238*
Interest on cash credits and overdrafts	*5,663*
Interest earned but not received on cash credit and overdrafts treated as NPA	*923*
Interest on deposits	*4,120*
Commission	*201*
Profit on sale of investments	*1,876*
Profit on revaluation of investments	*342*
Income from Investments	*2,174*
Payments to and provision for employees	*2,745*
Rent, Taxes and Lighting	*385*
Printing and Stationery	*62*
Director's fees, allowances and expenses	*313*
Repairs and Maintenance	*56*
Depreciation on Bank's property	*99*
Insurance	*43*

Other Information:

Make necessary provision on Risk Assets:

Particulars	*Figures in '000*
Standard	*4,700*
Sub-Standard	*1,900*
Doubtful Assets not covered by security	*400*
Doubtful Assets covered by security for 1 year	*40*
Loss Assets	*300*
Investments	*3,600*

Bank should not keep more than 25% of its investments as 'held for maturity' investment. The market value of its best 75% investment is ₹ 1,875 as on 31st March, 2018.*

(10 Marks)

* To be read as 18,75,000

(b) *Welcome Insurance Co. Ltd. furnishes you the following information:*

On 31st March, 2017 it had reserve for unexpired risk to the tune ₹ 100 Cr. It comprised of ₹ 35 Cr. in respect of Marine Insurance business, ₹ 50 Cr. in respect of Fire Insurance business and ₹ 15 Cr. it respect of Miscellaneous Insurance business.

(i) *It is the practice of Welcome Insurance Co. Ltd. to create reserve at 100% of net premium income in respect of Marine Insurance Policies and at 50% of net premium income in respect of Fire and Miscellaneous income policies.*

(ii) *During 2017-18 the following business was conducted:*

(₹ in Crores)

		Marine	Fire	Miscellaneous
	Premium collected from:			
(a)	Insureds in respect of policies issued	35	105	28
(b)	Other insurance companies in respect of risks undertaken:			
	Received during the year	12.5	26.3	7.8
	Receivable on 01-04-2017	3.2	9.8	1.3
	Receivable on 31-03-2018	4.4	15.5	2.6
	Premium paid/payable to other insurance companies on business ceded	7.5	5.3	8

You are asked to:

(a) *Pass Journal Entries relating to "Unexpired Risk Reserve".*

(b) *Show in columnar form "Unexpired Risk Reserve A/c for F.Y.2017-18.* ***(6 Marks)***

Answer

(a) Indus Bank Limited

Profit & Loss Account for the year ended 31st March, 2018

		Schedule	₹ '000s
I.	Income		
	Interest earned	13	8,971
	Other income	14	2,419
	Total		11,390
II.	Expenditure		
	Interest expended	15	4,120
	Operating expenses	16	3,703

Provisions & contingencies (Refer W.N.)		1,838.8
Total		9,661.8
III. Profit/Loss		1,728.2

Schedule 13 – Interest Earned

	₹ '000s
Interest / discount on advances bills	
Interest on term loans [2,550- (731-238)]	2,057
Interest on cash credits and overdrafts (5,663-923)	4,740
Income on investments	2,174
	8,971
Note : Interest on non-performing assets is recognized on receipt basis.	

Schedule 14 – Other Income

	₹ '000s
Commission, exchange and brokerage	201
Profit on sale of investments	1,876
Profit on revaluation of investments	342
	2,419

Schedule 15 – Interest Expended

	₹ '000s
Interest on deposits	4120

Schedule 16 – Operating Expenses

	₹ '000s
Payments to and provision for employees - salaries, bonus and allowances	2,745
Rent, taxes and lighting	385
Printing & stationery	62
Director's fee, allowances and expenses	313
Depreciation Charges	99
Repairs & maintenance	56
Insurance	43
	3,703

Working Note:

Provisions & Contingencies		₹ '000s
Provision for standard and non-performing assets		
Standard (4,700 x .4%)		18.8
Sub-standard (1900 x 15%)*		285
Doubtful (400 x 100%)		400
Doubtful (40 x25%)		10
Loss assets (300 x 100%)		300
		1,013.8
Diminution in the value of current Investments:		
Cost of 75% of ₹ 3,600 thousands**	2,700	
Less: Market value	(1875)	825
		1,838.8

(b) **In the books of Welcome Insurance Co. Ltd.**

Journal Entries

Date	*Particulars*		*(₹ in crores)*	
			Dr.	*Cr.*
1.4.17	Unexpired Risk Reserve (Fire) A/c	Dr.	50	
	Unexpired Risk Reserve (Marine) A/c	Dr.	35	
	Unexpired Risk Reserve (Miscellaneous) A/c	Dr.	15	
	To Fire Revenue Account			50
	To Marine Revenue Account			35
	To Miscellaneous Revenue Account			15
	(Being unexpired risk reserve brought forward from last year)			

* considered as fully secured.

** 25% of investments classified as 'held for maturity' need not be marked to market as per RBI Guidelines. However, the remaining 75% investments have been marked to market according to RBI Guidelines.

31.3.18	Marine Revenue A/c	Dr.	41.2	
	To Unexpired Risk Reserve A/c			41.2
	(Being closing reserve for unexpired risk created at 100% of net premium income)			
	Fire Revenue A/c	Dr.	65.85	
	To Unexpired Risk Reserve A/c			65.85
	(Being closing reserve for unexpired risk created at 50% of net premium income)			
	Miscellaneous Revenue A/c	Dr.	14.55	
	To Unexpired Risk Reserve A/c			14.55
	(Being closing reserve for unexpired risk created at 50% net premium income)			

Unexpired Risk Reserve Account

Date	*Particulars*	*Marine (₹)*	*Fire (₹)*	*Misc (₹)*	*Date*	*Particulars*	*Marine (₹)*	*Fire (₹)*	*Misc (₹)*
1.4.17	To Revenue A/c	35	50	15	1.4.17	By Balance b/d	35	50	15
31.3.18	To Balance c/d	41.2	65.85	14.55	31.3.18	By Revenue A/c	41.2	65.85	14.55
		76.2	115.85	29.55			76.2	115.85	29.55

Working Note

Calculation of Closing Unexpired Risk Reserve

	Marine	Fire	Misc
Premium collected on Direct Business	35	105	28
Add Premium of other Insurance Companies	12.5+4.4-3.2 = 13.7	26.3+15.5-9.8 = 32	7.8+2.6-1.3 = 9.1
Less Premium Paid / Payable to other insurance companies	(7.5)	(5.3)	(8)
Net Premium earned	41.2	131.7	29.1
Closing Unexpired Risk Reserve	41.2	65.85	14.55

Question 6

(a) *Ram, Sham and Mahaan sons of Prabhu Dyal are running Punya Hotel in Chennai. Ram is heading Room division (A), Sham is heading banquet division (B) and Mahaan is heading Restaurant division (C). Each of the three brothers would receive 60% of the profits, if any, of the department of which he was incharge and remaining combined profits would be shared in 2:2:1 ratio. The following is the Trading and Profit and Loss Account of the firm for the year ended March 31, 2018:*

	(₹)	(₹)		(₹)	(₹)
To Opening Stock:			By Sales:		
Room (A)	25,650		Room (A)	2,70,000	
Banquet (B)	18,000		Banquet (B)	1,65,000	
Restaurant (C)	19,500	63,150	Restaurant (C)	86,700	5,21,700
To Purchases: Room (A)	2,35,000		By Discount received		1,650
Banquet (B)	1,56,000		By Closing Stock:		
Restaurant (C)	84,200	4,75,200	Room (A)	55,300	
To Salaries	34,400		Banquet (B)	31,800	
To Royalties	8,000		Restaurant (C)	42,500	1,29,600
To Parking fee & car washing charges	9,600				
To Discount allowed	2,500				
To Misc. Exp.	7,000				
To Depreciation	1,160	62,660			
To Net Profit		51,940			
Total		6,52,950	Total		6,52,950

Prepare : (I) Departmental Trading and Profit and Loss Account and (II) Profit and Loss Appropriation Account after incorporating the following information:

(i) *Closing stock of Dept. B includes goods amounting ₹ 3,500 being transferred from Dept. A*

(ii) *Stock value ₹ 9,300 and other goods of the value of ₹ 1,500 were transferred at selling price by Departments A and C respectively to Department B.*

(iii) *The details of salaries were as follows:*

(1) *Admin Office 60%, Pantry 40%*

(2) *Allocate Admin Office in the proportion of 3: 2:1 among the Departments A, B, C*

(3) *Distribute Pantry expenses equally among the Department A and B.*

(iv) *The parking fee is ₹ 500 per month which is to be divided equally between Departments A, B & C.*

(v) *All other expenses are to be allocated in ratio of 2:2:1.*

(vi) *Discounts received are to be credited to the three Departments as follows:*

A : ₹650; B : ₹600; C : ₹400.

(vii) *The opening stock of Department B does not include any goods transferred from other departments and closing stock of Department B does not include any stock transferred from Department C.* ***(12 Marks)***

(b) *From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31st March, 2018, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:*

(i) *Goods are sent to the branch at invoice price and branch also maintains stock at the same price.*

(ii) *Sale price is cost plus 40%.*

(iii) *Invoice price is cost plus 15%.*

(iv) *Other information from accounts of branch:*

Opening Stock as on 01-04-2017	*3,45,000*
Goods sent during the year by HO to BO	*16,10,000*
Sales during the year	*21,00,000*
Expenses incurred at the branch	*45,000*

(4 Marks)

Answer

(a) **Ram, Sham and Mahaan**

Departmental Trading and Profit & Loss Account for the year ended 31-3-2018

		A	B	C			A	B	C
To	Opening Stock	25,650	18,000	19,500	By	Sales	2,70,000	1,65,000	86,700
To	Purchases	2,35,000	1,56,000	84,200	By	Transfer	9,300		1,500
To	Transfer		10,800		By	Closing Stock	55,300	31,800	42,500

To	Gross profit c/d	73,950	12,000	27,000					
		3,34,600	1,96,800	1,30,700			3,34,600	1,96,800	1,30,700
To	Salaries:				By	Gross profit b/d	73,950	12,000	27,000
	Admin	10,320	6,880	3,440	By	Discount Received	650	600	400
To	Royalty	3,200	3,200	1,600	By	Net loss	-	12,064	
To	Parking	2,000	2,000	2,000					
To	Salaries: Pantry	6,880	6,880						
To	Car wash	1,440	1,440	720					
To	Discount Allowed	1,000	1,000	500					
To	Misc Expenses	2,800	2,800	1,400					
To	Depreciation	464	464	232					
To	Net Profit c/d	46,496	-	17,508					
		74,600	24,664	27,400			74,600	24,664	27,400

Note: Gross profit of Department A is 26.48% (approx.) of Sales price (including transfer to Department C) 73,950/(2,70,000+9,300).There is some unrealized profit only on inter departmental stock 26.48% of ₹ 3,500 is as stock reserve i.e. ₹ 927. This will be debited to Profit and Loss Appropriation Account.

Profit and Loss Appropriation Account

		₹	₹			₹
To	Stock Reserve (See Note)		927	By	Net Profit transferred from Profit & Loss A/c	64,004
To	Net loss transferred from profit & loss A/c		12,064			
To	Ram: 60% of Profit of Deptt. A		27,898			
To	Mahaan: 60% of Profit of Deptt. C		10,505			
To	Share in Combined profits					
	Ram	5,044				
	Sham	5,044				
	Mahaan	2,522	12,610			
			64,004			64,004

Working Note:

Calculation of combined profit ₹

Ram	46,496
Mahaan	17,508
Sham	(12,064)
Total	51,940
Less: Ram share	(27,898)
Less: Mahaan share	(10,505)
Less: stock reserve	(927)
Remaining profit	12,610

(b) Branch Stock Reserve in respect of unrealized profit

on opening stock = ₹ 3,45,000 x (15/115) = ₹ 45,000

on closing stock = ₹ 2,30,000 x (15/115) = ₹ 30,000

Working Note: ₹

Cost Price	100
Invoice Price	115
Sale Price	140
Calculation of closing stock at invoice price	₹
Opening stock at invoice price	3,45,000
Goods received during the year at invoice price	16,10,000
	19,55,000
Less: Cost of goods sold at invoice price [21,00,000 X (115/140)]	(17,25,000)
Closing stock	2,30,000

Question 7

Answer any four:

(a) *State with reason whether the following cash credit accounts are NPA or not:*

	Case-1	*Case-2*	*Case- 3*	*Case-4*
Sanctioned limit	*50,00,000*	*60,00,000*	*55,00,000*	*45,00,000*
Drawing power	*44,00,000*	*56,00,000*	*50,00,000*	*42,00,000*
Amount outstanding continuously 01-01-18 to 31-03-18	*40,00,000*	*48,00,000*	*56,00,000*	*30,00,000*

Total interest debited for the above period	*3,20,000*	*3,84,000*	*4,48,000*	*2,40,000*
Total credits for the above period	*1,80,000*	*Nil*	*4,48,000*	*3,20,000*

(b) Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2018 :

Particulars	*₹*	*₹*
Equity Share Capital (shares of ₹ 10 each fully paid		*30,00,000*
Reserves & Surplus		
General Reserve	*32,50,000*	
Security Premium Account	*6,00,000*	
Profit & Loss Account	*4,30,000*	
Revaluation Reserve	*6,20,000*	*49,00,000*
Loan Funds		*42,00,000*

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share.

(c) From the following, you are required to calculate the amount of claim to be shown in the revenue account for the year ending 31st March, 2018 :

Claim intimated in the year	*Claim accepted in the year*	*Claim paid in the year*	*(₹)*
2016-17	*2016-17*	*2017-18*	*80,000*
2017-18	*2017-18*	*2018-19*	*65,000*
2015-16	*2016-17*	*2016-17*	*30,000*
2015-16	*2016-17*	*2017-18*	*70,000*
2017-18	*2018-19*	*2018-19*	*45,000*
2017-18	*2017-18*	*2017-18*	*3,50,000*

Claim on account of Reinsurance was ₹ 1,22,000.

(d) XYZ Ltd. has issued 1,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue.

You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders and also pass journal entry for conversion and redemption of debentures.

(e) *What are the bases of measurement of Elements of Financial Statements? Explain in brief.* **(4 parts x 4 marks =16 marks)**

Answer

(a)

	Case 1	**Case 2**	**Case 3**	**Case 4**
	₹	₹	₹	₹
Sanctioned limit	50,00,000	60,00,000	55,00,000	45,00,000
Drawing power	44,00,000	56,00,000	50,00,000	42,00,000
Amount outstanding continuously from 1.01.2018 to 31.03.2018	40,00,000	48,00,000	56,00,000	30,00,000
Total interest debited	3,20,000	3,84,000	4,48,000	2,40,000
Total credits	1,80,000	-	4,48,000	320,000
Is credit in the account is sufficient to cover the interest debited during the period or amount is not 'overdue' for a continuous period of 90 days.	No	No	The credit in the account is sufficient to cover the interest debited but the amount outstanding is continuously in excess of the sanctioned drawing power for a continuous period of 90 days.	Yes
	NPA	NPA	NPA	NOT NPA

(b) Debt Equity Ratio Test

	Particulars	₹
a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy back in	

	the ratio of 2:1 (₹ in crores)	21,00,000
(c)	Present equity shareholders fund (₹ in crores)	72,80,000
(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000 (72,80,000-12,95,000)
(e)	Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

Working Note:

1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 +6,00,000+4,30,000)	42,80,000
	72,80,000

2. As per section 68 of the Companies Act, 2013, amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

   Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

   Equation 1 :(Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

   $$(72,80,000 - x) - 21,00,000 = y \qquad (1)$$

   Since $51,80,000 - x = y$

   Equation 2: $\left(\dfrac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \text{ x Nominal Value}\right)$

   = Nominal value of the shares bought –back to be transferred to CRR

   $$= \left(\frac{y}{30} \times 10\right) = x$$

   $$3x = y \qquad (2)$$

   x = ₹ 12,95,000 crores and y = ₹ 38,85,000 crores

(c)

	₹
Total claim paid in 2017-18 : ₹ (3,50,000 + 70,000 + 80,000)	5,00,000
Less: Outstanding in the beginning, *i.e.,* intimated in 2016-17 or earlier whether accepted in 2016-17 or in 2017-18(₹ 80,000+ ₹ 70,000)	(1,50,000)
	3,50,000
Add: Outstanding at the end, i.e., intimated in 2017-18 whether accepted in 2017-18 or in 2018-19 ₹ (65,000 + 45,000)	1, 10,000
	4,60,000
Less: Re-insurance claim	(1,22,000)
Claims to be shown in revenue account	3,38,000

(d)

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	200
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40
Redemption value of 40 debentures at a premium of 5% [40 x (100+5)]	₹ 4,200
Equity shares of ₹ 10 each issued on conversion	
[₹ 4,200/ ₹ 20]	210 shares

Calculation of cash to be paid :	₹
Number of debentures	200
Less: number of debentures to be converted into equity shares	(40)
	160
Redemption value of 160 debentures (160 × ₹ 105)	₹ 16,800

Journal Entry

Debentures A/c	Dr.	20,000	
Premium on redemption A/c	Dr.	1,000	
To Debenture holders A/c			21,000
(Being amount due to debenture holders at redemption)			

Debenture holders A/c	Dr.	21,000	
To Equity Share capital A/c			2,100
To Securities premium A/c	Dr.		2,100
To Cash A/c			16,800
(Discharge of amount due to Debenture holders)			

(e) Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The framework recognizes four alternative measurement bases for the purpose. These bases can be explained as:

Historical cost	Acquisition price. According to this, assets are recorded at an amount of cash and cash equivalent paid or the fair value of the assets at time of acquisition.
Current Cost	Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
Realisable (Settlement) Value	For assets, amount currently realizable on sale of the asset in an orderly disposal. For liabilities, this is the undiscounted amount expected to be paid on settlement of liability in the normal course of business.
Present Value	Assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

In preparation of financial statements, all or any of the measurement basis can be used in varying combinations to assign money values to financial items.