MOCK TEST PAPER – 2

INTERMEDIATE (IPC) COURSE: GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

ANSWERS

1. (a) 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) recorded in the current year, should not be regarded as prior period item.

(b) (i) 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.

(ii) As per AS 12 "Accounting for Govt. Grants", Where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve. Subsidy received by A Ltd. is in the nature of promoter's contribution, since this grant is given with reference to the total investment in an undertaking and by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof. Therefore, this grant should be treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

(c) As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognized when

- an enterprise has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized. In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note:

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of Rs. 200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."

(d) Research Expenditure – According to AS 26 'Intangible Assets', the expenditure on research of new process design for its product Rs. 10 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. It is presumed that the entire expenditure is incurred in the financial year 2020-21. Hence, it should be written off as an expense in that year itself.

Cost of internally generated intangible asset – it is given that development phase expenditure amounting Rs. 8 lakhs incurred upto 31st March, 2021 meets asset recognition criteria. As per AS 26, for measurement of such internally generated intangible asset, fair value should be estimated by discounting estimated future net cash flows.

Savings (after tax) from implementation of new design for next 5 years	Rs. 2 lakhs p.a.
Company's cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908
Present value of net cash flows (Rs. 2 lakhs x 3.7908)	Rs. 7.582 lakhs

The cost of an internally generated intangible asset would be lower of cost value Rs. 8 lakhs or present value of future net cash flows Rs. 7.582 lakhs.

Hence, cost of an internally generated intangible asset will be Rs. 7.582 lakhs.

The difference of Rs. 0.418 lakhs (i.e. Rs. 8 lakhs – Rs. 7.582 lakhs) will be amortized by Plymouth for the financial year 2020-21.

Amortisation - The company can amortise Rs. 7.582 lakhs over a period of five years by charging Rs. 1.516 lakhs per annum from the financial year 2021-2022 onwards.

2. (a) Washington Branch Trial Balance (in Rupees) in the books of Omega

as on 30th September, 2021

	Dr.	*Cr.*	*Conversion*	*Dr.*	*Cr.*
	US $	*US $*	*rate*	*(Rs. '000)*	*(Rs. '000)*
Plant and Machinery	1,08,000		41	44,28,000	
Depreciation on plant and machinery	12,000		41	4,92,000	
Furniture and fixtures	7,200		41	2,95,200	
Depreciation on furniture and fixtures	800		41	32,800	
Stock, Oct. 1, 2020	56,000		39	21,84,000	
Purchases	2,40,000		40	96,00,000	
Sales		4,16,000	40		1,66,40,000
Goods from Omega (H.O.)	80,000			39,40,000	
Wages	3,000		40	1,20,000	
Outstanding wages		1,000	41		41,000
Carriage inward	1,000		40	40,000	
Salaries	6,000		40	2,40,000	
Rent, rates and taxes	2,000		40	80,000	
Insurance	1,000		40	40,000	
Trade expenses	1,000		40	40,000	
Head Office A/c		1,14,000			43,00,000
Trade debtors	24,000		41	9,84,000	
Trade creditors		17,000	41		6,97,000

Cash at bank	5,000			41	2,05,000	
Cash in hand	1,000			41	41,000	
Exchange gain (bal. fig.)						10,84,000
	5,48,000	5,48,000			2,27,62,000	2,27,62,000

Washington Branch Trading and Profit and Loss Account

for the year ended 30th September, 2021

	Rs.		Rs.
To Opening stock	21,84,000	By Sales	1,66,40,000
To Purchases	96,00,000	By Closing stock	21,32,000
To Goods from Head Office	39,40,000	(52,000 US $ × 41)	
To Wages	1,20,000		
To Carriage inward	40,000		
To Gross profit c/d	28,88,000		
	1,87,72,000		1,87,72,000
To Salaries	2,40,000	By Gross profit b/d	28,88,000
To Rent, rates and taxes	80,000		
To Insurance	40,000		
To Trade expenses	40,000		
To Depreciation on plant and machinery	4,92,000		
To Depreciation on furniture and fixtures	32,800		
To Net Profit c/d	19,63,200		
	28,88,000		28,88,000

Balance Sheet of Washington Branch
as on 30th September, 2021

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Head Office A/c	43,00,000		Plant and machinery	49,20,000	
Add : Net profit	19,63,200	62,63,200	*Less* : Depreciation	(4,92,000)	44,28,000
Foreign currency			Furniture and fixtures	3,28,000	
Translation reserve		10,84,000	*Less* : Depreciation	(32,800)	2,95,200
Trade creditors		6,97,000	Closing stock		21,32,000
Outstanding wages		41,000	Trade debtors		9,84,000
			Cash in hand		41,000
			Cash at bank		2,05,000
		80,85,200			80,85,200

(b) Calculation of unrealized profit of each department and total unrealized profit

	Dept. A	*Dept. B*	*Dept. C*	*Total*
	Rs.	*Rs.*	*Rs.*	*Rs.*
Unrealized Profit of:				
Department A		45,000 x 50/150 = 15,000	42,000 x 20/120 = 7,000	22,000

Department B	40,000 x .25 = 10,000		72,000 x .15= 10,800	20,800
Department C	39,000 x 30/130 = 9,000	42,000 x 40/140 = 12,000		21,000
				63,800

3. (a) Statement showing distribution of cash amongst the partners

	Creditors	*B's Loan*	*A*	*B*	*C*
2020	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*
June 30					
Balance b/d	30,000	10,000	76,000	48,000	36,000
Cash balance less Provision for					
expenses (Rs. 10,800 – Rs. 5,400)	5,400	-	-	-	-
Balances unpaid	24,600	10,000	76,000	48,000	36,000
July 5					
1st Instalment of Rs. 25,200	23,600	1,600	-	-	-
Discount received on full settlement	1,000	8,400	76,000	48,000	36,000
Less: Transferred to Realization A/c	1,000				
	Nil				
August 30					
2nd instalment of Rs. 60,000 (W.N. 2)		8,400	32,640	4,640	14,320
Balance unpaid		Nil	43,360	43,360	21,680
September 15					
Amount realised Rs. 80,000					
Add: Balance out					
of the Provision for					
Expenses A/c 1,400					
81,400			32,560	32,560	16,280
Amount unpaid being loss on Realization in the ratio of 2 : 2 : 1			10,800	10,800	5,400

Working Notes:

1. **Highest relative capital basis**

		A	*B*	*C*
		Rs.	*Rs.*	*Rs.*
1.	Present Capitals	76,000	48,000	36,000
2.	Profit-sharing ratio	2	2	1
3	Capital per unit of Profit share (1 ÷ 2)	38,000	24,000	36,000
4.	Proportionate capitals taking B, whose capital is the least, as the basis	48,000	48,000	24,000
5.	Excess capital (1-4)	28,000	Nil	12,000
6.	Profit-sharing ratio	2	-	1

7.	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000
8.	Proportionate capitals as between A and C taking C capital as the basis	24,000	-	12,000
9.	Excess of A's Capital over C's Excess capital (5-8)	4,000	-	-
10.	Balance of Excess capital (5-9)	24,000		12,000
11.	Distribution sequence:			
	First Rs. 4,000 (2 : 0 : 0)	4,000	-	-
	Next Rs. 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over Rs. 40,000 (2 : 2 : 1)			

2. **Distribution of Second instalment**

			Creditors	*A*	*B*	*C*
First	Rs. 8,400		8,400	-	-	-
Next	Rs. 4,000	(2 : 0 : 0)		4,000	-	-
Next	Rs. 36,000	(2 : 0 : 1)		24,000	-	12,000
Balance	Rs. 11,600	(2 : 2 : 1)		4,640	4,640	2,320
	60,000		8,400	32,640	4,640	14,320

(b) Garner vs. Murray rule: When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners in accordance with the decision held in the English case of Garner vs. Murray. According to this decision, normal loss on realisation of assets is to be brought in cash by all partners (including insolvent partner) in the profit sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in their capital ratio. In order to calculate the capital ratio, no adjustment will be made in case of fixed capitals. However, in case of fluctuating capitals, ratio should be calculated on the basis of adjusted capital before considering profit or loss on realization at the time of dissolution.

Non-Applicability of Garner vs Murray rule:

1. When the solvent partner has a debit balance in the capital account.

   Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.
2. When the firm has only two partners.
3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.
4. When all the partners of the firm are insolvent.

4. Journal Entries in the books of Meghna Ltd.

	Particulars		*Debit (Rs. in lakhs)*	*Credit (Rs. in lakhs)*
(i)	8% Preference share capital A/c (Rs. 100 each)	Dr.	400	
	To 8% Preference share capital A/c (Rs. 80 each)			320
	To Capital Reduction A/c			80
	(Being the preference shares of Rs. 100 each reduced to Rs. 80 each as per the approved scheme)			
(ii)	Equity share capital A/c (Rs. 10 each)	Dr.	1,000	
	To Equity share capital A/c (Rs. 2 each)			200

	To Capital Reduction A/c			800
	(Being the equity shares of Rs. 10 each reduced to Rs. 2 each)			
(iii)	Capital Reduction A/c	Dr.	32	
	To Equity share capital A/c (Rs. 2 each)			32
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of Rs. 2 each)			
(iv)	6% Debentures A/c	Dr.	300	
	To Freehold property A/c			300
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c	Dr.	24	
	To Bank A/c			24
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	150	
	To Capital Reduction A/c			150
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	250	
	To Investments A/c			200
	To Capital Reduction A/c			50
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	300	
	To Equity share capital A/c (Rs. 2 each)			90
	To Capital Reduction A/c			210
	(Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of Rs. 2 each)			
(ix)	Capital Reduction A/c	Dr.	972	
	To Profit and loss A/c			522
	To Trade receivables A/c (450x 40%)			180
	To Inventories-in-trade A/c (300x 80%)			240
	To Bank A/c (600 x 5%)			30
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
(x)	Capital Reduction A/c		286	
	To Capital reserve A/c			286
	(Being balance transferred to capital reserve account as per the scheme)			

Capital Reduction Account

		(Rs. in lakhs)			*(Rs. in lakhs)*
To	Equity Share Capital	32	By	Preference Share Capital	80
To	Trade receivables	180	By	Equity Share Capital	800

To	Finished Goods	240	By	Freehold Property	150
To	Profit & Loss A/c	522	By	Bank	50
To	Bank A/c	30	By	Director's Loan	210
To	Capital Reserve	286			
		1,290			1,290

5. (a)

ABC General Insurance Co. Ltd

Revenue Account for the year ended 31st March, 2021
Fire and Marine Insurance Businesses

	Schedule	*Fire Current Year*	*Marine Current Year*
		Rs.	*Rs.*
Premiums earned (net)	1	8,55,000	2,80,000
Profit / (Loss) on sale / redemption of investments		—	—
Others (to be specified)		—	—
Interest, Dividends and Rent – Gross		—	—
Total (A)		8,55,000	2,80,000
Claims incurred (net)	2	1,74,000	1,84,000
Commission	3	80,000	40,000
Operating expenses related to Insurance business	4	1,30,000	92,000
Total (B)		3,84,000	3,16,000
Profit OR Loss from Fire / Marine Insurance business (A-B)		4,71,000	(36,000)

Schedules forming part of Revenue Account

Premiums earned (net)	*Fire Current Year*	*Marine Current Year*
	Rs.	*Rs.*
Schedule –1		
Premiums from direct business less reinsurance written (W.N.3)	9,10,000	6,70,000
Less: Adjustment for Change in provision for unexpired risk	(55,000)	(3,90,000)
	8,55,000	2,80,000
Schedule – 2		
Claims incurred (net)	1,74,000	1,84,000
Schedule – 3		
Commission Paid	80,000	40,000
Schedule – 4		
Operating expenses related to insurance business		
Expenses of Management	1,30,000	92,000

Working Notes:

		Fire	*Marine*
		Rs.	Rs.
1.	**Claims under policies less reinsurance**		
	Claims paid during the year	2,00,000	1,60,000
	Add: Outstanding on 31st March, 2021	20,000	30,000
		2,20,000	1,90,000
	Less: Outstanding on 1st April, 2020	(56,000)	(14,000)
		1,64,000	1,76,000
	Add: Legal expenses	10,000	8,000
		1,74,000	1,84,000
2.	Expenses of management		
	Expenses paid during the year	1,20,000	90,000
	Add: Outstanding on 31st March, 2021	20,000	10,000
		1,40,000	1,00,000
	Less: Legal Expense for claim	(10,000)	(8,000)
		1,30,000	92,000
3.	Premiums less reinsurance		
	Premiums received during the year	9,00,000	6,60,000
	Add: Outstanding on 31st March, 2021	60,000	40,000
		9,60,000	7,00,000
	Less: Reinsurance premiums	(50,000)	(30,000)
		9,10,000	6,70,000

4. **Changes in unexpired Risk Reserve**

	Rs.
Reserve for unexpired Risk (Fire Insurance @ 50%)	
Opening Reserve (A)	4,00,000
Closing Reserve (Rs. 9,10,000 x 50/100) (B)	4,55,000
Additional Transfer to Reserve (B) – (A)	55,000
Reserve for unexpired Risk (Marine Insurance @ 100%)	
Opening Reserve (A)	2,80,000
Closing Reserve (Rs. 6,70,000 x 100/100) (B)	6,70,000
Additional Transfer to Reserve (B) – (A)	3,90,000

(b) Statement showing rebate on bills discounted

Value	Due Date	Days after 31.3.2021	Rate of discount	Discount Amount
1,46,200	4.5.21	(30+ 4) = 34	15%	2,043
2,30,400	12.5.21	(30+12) = 42	15%	3,977
4,35,900	28.5.21	(30+28) = 58	15%	10,390
4,36,200	18.6.21	(30+ 31+ 18) = 79	16%	15,106
2,68,100	4.7.21	(30+ 31+30+4) = 95	16%	11,165
15,16,800	Rebate on bills discounted on 31.3.2021			42,681

Note: 365 days have been considered in a year.

Journal Entries in the books of SM Bank Ltd.

(i)	Rebate on bills discounted Account	Dr.	26,592	
	To Discount on bills Account			26,592
	[Being opening balance of rebate on bills discounted account transferred to discount on bills account]			
(ii)	Bills purchased & discounted Account	Dr.	15,16,800	
	To Discount on bills Account			1,26,859
	To Clients Account			13,89,941
	(Being bills purchased and discounted during the year)			
(iii)	Discount on bills Account	Dr.	42,681	
	To Rebate on bills discounted Account			42,681
	[Being provision made on 31st March, 2021]			
(iv)	Discount on bills Account	Dr.	1,10,770	
	To Profit and loss Account*			1,10,770
	[Being transfer of discount on bills, of the year, to profit and loss account]			

*Credit to Profit and Loss A/c will be as follows:

Rs. (1,26,859 + 26,592 – 42,681) = Rs. 1,10,770

6. (a) Determination of maximum no. of shares that can be bought back as per the Companies Act, 2013

1. **Shares Outstanding Test**

Particulars	*(Shares)*
Number of shares outstanding	1,70,000
25% of the shares outstanding	42,500

2. **Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves**

Particulars	
Paid up capital (Rs.)	17,00,000
Free reserves (Rs.) (23,50,000 + 2,50,000 + 2,00,000)	28,00,000
Shareholders' funds (Rs.)	45,00,000
25% of Shareholders fund (Rs.)	11,25,000
Buy back price per share	Rs. 30
Number of shares that can be bought back (shares)	37,500
Actual Number of shares proposed for buy back	35,000

3. **Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Shareholder's Funds post Buy Back**

	Particulars	*Rs.*
(a)	Loan funds (Rs.) (22,50,000+8,50,000+15,50,000)	46,50,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	23,25,000
(c)	Present equity/shareholders fund (Rs.)	45,00,000

(d)	Future equity/shareholders fund (Rs.) (see W.N.) (45,00,000 – 5,43,750)	39,56,250*
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	16,31,250
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share	54,375 shares
(g)	Actual Buy Back Proposed	35,000 Shares

Summary statement determining the maximum number of shares to be bought back

Particulars	*Number of shares*
Shares Outstanding Test	42,500
Resources Test	37,500
Debt Equity Ratio Test	54,375
Maximum number of shares that can be bought back [least of the above]	37,500

Company qualifies all tests for buy-back of shares and it can buy back maximum 37,500 shares on 1st April, 2021. However, company wants to buy-back only 35,000 equity shares @ Rs. 30. Therefore, buy-back of 35,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Working Note:

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$(45,00,000 - x) - 23,25,000 = y$ (1)

$\left(\frac{y}{30} \times 10\right) = x$ Or $3x = y$ (2)

by solving the above equation, we get x = Rs. 5,43,750 and y = Rs. 16,31,250

(b) **Journal Entries in the books of Om Ltd.**

			Rs.	*Rs.*
1.3.21	Bank A/c (1,02,500 x Rs. 60)	Dr.	61,50,000	
to 31.3.21	Employee compensation expense A/c (1,02,500 x Rs.90)	Dr.	92,25,000	
	To Equity share capital A/c (1,02,500x Rs.10)			10,25,000
	To Securities premium A/c (1,02,500 x Rs.140)			1,43,50,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.21	Profit and Loss A/c	Dr.	92,25,000	

As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

	To Employee compensation expense A/c (Being transfer of employee compensation expenses to Profit and Loss Account)		92,25,000

7. (a) As per AS 11, 'The Effects of Changes in Foreign Exchange Rates', initial recognition of a foreign currency transaction is done in the reporting currency by applying the exchange rate at the date of the transaction. Accordingly, on 25th February 2021, the raw material purchased and its creditors will be recorded at US dollar 9,000 × Rs. 44 = Rs. 3,96,000.Also, as per para 11 of the standard, on balance sheet date such transaction is reported at closing rate of exchange, hence it will be valued at the closing rate i.e. Rs. 49 per US dollar (USD 9,000 x Rs. 49 = Rs. 4,41,000) at 31st March, 2021, irrespective of the payment made for the same subsequently at lower rate in the next financial year. The difference of Rs. 5 (49 – 44) per US dollar i.e. Rs. 45,000 (USD 9,000 x Rs. 5) will be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2021 and will not be adjusted against the cost of raw materials. In the subsequent year on settlement date, the company would recognize or provide in the Profit and Loss account an exchange gain of Rs. 1 per US dollar, i.e. the difference from balance sheet date to the date of settlement between Rs. 49 and Rs. 48 per US dollar i.e. Rs. 9,000. Hence, the accounting treatment adopted by the Chief Accountant of the company is incorrect i.e. it is not in accordance with the provisions of AS 11.

(b) Calculation of Total Remuneration payable to Liquidator

		Amount in Rs.
2% on Assets realised	37,50,000 x 2%	75,000
3% on payment made to Preferential creditors	1,12,500 x 3%	3,375
3% on payment made to Unsecured creditors (Refer W.N)		58,882
Total Remuneration payable to Liquidator		1,37,257

Working Note:

Liquidator's remuneration on payment to unsecured creditors

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= Rs. 37,50,000 – Rs. 37,500 – Rs. 15,00,000 – Rs. 1,12,500 – Rs. 75,000 – Rs. 3,375 = Rs. 20,21,625.

Liquidator's remuneration = 3/103 x Rs. 20,21,625= Rs. 58,882

(c) Statement showing the amount of provisions on Assets

			(Rs. *in lakhs)*
Assets	*Amount*	*% of provision*	*Provision*
Standard:			
Advances to CRE	15,00	1	15
Others	60,00	.4	24
Sub-standard:			
Secured	40,00	15	6,00
Unsecured- Others	15,00	25	3,75
Unsecured infrastructure	5,00	20	1,00
Doubtful Secured:			
up to one year	12,00	25	3,00
For more than 1 year up to 3 years	9,00	40	3,60
More than 3 years	4,00	W.N.	2,75
Doubtful unsecured (more than 3 years)	5,00	100	5,00

Loss	15,00	100	15,00
Total Provision Required			40,49

Working Note:

Provision required where assets are ECGC covered

	Rs. In Lakhs
Outstanding balance (ECGC Covered)	4,00
Less: Value of security	1,50
Unrealised balance	2,50
Less: ECGC Cover @ 50%	1,25
Net Unsecured Balance	1,25
Provision for unsecured portion @100%	1,25
Provision for secured portion @100%	1,50
Total Provision to be made	2,75

(d) **Journal Entries**

In the books of Head Office

	Particulars		*Dr. Amount Rs.*	*Cr. Amount Rs.*
(i)	Loss of goods due to theft during transit	Dr.	12,000	
	To Branch account			12,000
	(Being goods lost on account of theft during transit)			
(ii)	Salaries account	Dr.	15,000	
	To Branch account			15,000
	(Being salary paid by the branch for H.O. employee)			
(iii)	Cash in transit account	Dr.	10,000	
	To Branch account			10,000
	(Being remittance by branch not received by 31st March)			
(iv)	Branch account	Dr.	25,000	
	To Purchases account			25,000
	(Being rectification of entry for payment for goods purchased by branch wrongly debited to purchase account)			

(e) **Nature of Limited Liability Partnership:** A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.

Designated partners: Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India. In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners