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

(a) PNA Corp Limited has outstanding equity shares of 60,00,000 on 31-03-2020. It also has 13% 1,00,000 convertible debentures outstanding of ₹ 100 each, to be converted into 10 equity shares each. Tax rate is 40%. Net profit after tax for the year ended 31st March, 2020 is ₹ 1,70,00,000.

You are required to calculate:

(1) Basic EPS

(2) Diluted EPS.

(b) On 1st April, 2019 Borrower Limited obtained a 14% Loan of ₹ 80,00,000 to be utilized as under:

(i) Construction of Factory ₹ 50,00,000

(ii) Working Capital Financing ₹ 30,00,000

The Factory was constructed and became operational just before the end of the financial year 2019-20. The entire Interest was charged to Profit and Loss Account by Borrower Limited.

You are required to:

Comment, with reference to AS 16, whether the treatment done by the Borrower Limited is correct (with reasoning), if not, give rectification Journal Entry for the correct treatment as on 31st March, 2020.

(c) Sweet and Sour Limited deals in Catering Service. In a wedding in 2018-19, ten people died in which Sweet and Sour Limited has given their Catering Services, possibly as a result of food poisoning. Legal proceedings were started seeking compensation of ₹ 10,00,000 from the Company but it disputes liability. Up to the date of approval of the financial statements for the year 31st March, 2019, the Company's lawyers advised that it is probable that the Company will not be found liable for any amount. However, when the Company prepares the financial statements for the year 31st March 2020, its lawyers advice that, owing to developments in the case, it is probable that the Company may be found liable and compensation of ₹ 10,00,000 may be payable. How would you deal with the above as at 31st March, 2019 and at 31st March, 2020 in context with AS-29 ?

(d) *AB Limited has incurred ₹ 200 lakhs on Research of a new process during first 6 months of the financial year 2019-20. The development process began on 1st October, 2019 and upto 31st March, 2020 a sum of ₹ 320 lakhs was incurred as Development Phase Expenditure, which met recognition criteria.*

From 1st April, 2020, the company has implemented the new process and it is likely that this will result in after tax saving of ₹ 80 lakhs per annum for next five years. The cost of capital is 10%.

You are required to explain:

(i) *Accounting treatment for research expenses.*

(ii) *The cost of internally generated intangible asset as per AS-26.*

(iii) *The amount of amortization of the assets (The present value of annuity factor of ₹ 1 for 5 years @ 10 = 3.7908)* ***(4 Parts x 5 Marks= 20 Marks)***

Answer

(a) Computation of basic earnings per share

Net profit for the current year / Weighted average number of equity shares outstanding during the year

₹ 170,00,000 / 60,00,000 = ₹ 2.83 per share

Computation of diluted earnings per share

$$\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$$

Adjusted net profit for the current year

	₹
Net profit for the current year	170,00,000
Add: Interest expense for the current year	13,00,000
Less: Tax relating to interest expense (40% of ₹ 13,00,000)	(5,20,000)
Adjusted net profit for the current year	177,80,000

Number of equity shares resulting from conversion of debentures

= 10,00,000 Equity shares

Weighted average number of equity shares used to compute diluted earnings per share

= 70,00,000 shares (60,00,000 + 10,00,000)

Diluted earnings per share = ₹ 177,80,000/ 70,00,000 = ₹ 2.54 per share

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

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

Particulars	*Nature of assets*	*Interest to be Capitalized (₹)*	*Interest to be charged to Profit & Loss Account (₹)*
Construction of factory	Qualifying Asset*	50,00,000 x14/100 = ₹ 7,00,000	NIL
Working Capital	Not a Qualifying Asset	NIL	30,00,000 x14/100 = ₹ 4,20,000
Total		₹ 7,00,000	₹ 4,20,000

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

Note: It has been considered that the factory was completed and became operational on 31st March, 2020.

Rectification entry:

Factory A/c	Dr.	7,00,000	
To Profit and Loss A/c			7,00,000
(Being rectification of interest on factory building wrongly debited to Profit and Loss account, now rectified))			

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

(a) an enterprise has a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

On 31st March, 2019, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company and there will be no outflow of the resources. Therefore, the company should disclose the same as contingent liability by way of a note. However, on 31st March, 2020, provision is required to be made for the amount of ₹ 10 lakhs as it probable that the company may be required to pay the compensation.

(d) (1) Research Expenditure - According AS 26 'Intangible Assets', the expenditure on research of new process design for its product ₹ 200 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. Hence, it should be written off as expense in 2019-20 itself.

(2) Cost of internally generated intangible asset - The question states that the development phase expenditure amounting ₹ 320 lakhs incurred upto 31st March, 2020 meets asset recognition criteria. As per AS 26 for measurement of such internally generated intangible asset, fair value can be estimated by discounting estimated future net cash flows.

Savings (after tax) from implementation of new design for next 5 years	80 lakhs
Company's cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908
Present value of net cash flows (₹ 80 lakhs x 3.7908)	303.26 lakhs

The cost of an internally generated intangible asset would be lower of cost value ₹ 320 lakhs or present value of future net cash flows ₹303.26 lakhs.

Hence, cost of an internally generated intangible asset will be ₹ 303.26 lakhs.

The difference of ₹ 16.74 lakhs (i.e. ₹ 320 lakhs – ₹ 303.26 lakhs) will be amortized by the enterprise for the financial year 2019-20.

(3) Amortisation - The company can amortise ₹ 303.26 lakhs over a period of five years by charging ₹ 60.65 lakhs per annum from the financial year 2020-21 onwards.

Question 2

P, Q and R are sharing profits and losses in the ratio 5:3:2. Due to finding of frauds committed by R during the year, it was decided to dissolve the partnership on 31st March, 2020. As on 31st March, 2020 their Balance Sheet was as under:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Partner's Capital A/c		*Plant & Machinery*	*6,00,000*
P	*4,50,000*	*Stock*	*4,27,500*
Q	*4,50,000*	*Investments*	*1,45,000*
R	*-*	*Debtors*	*2,10,000*

General reserve	*1,20,000*	*Cash*	*72,500*
Trade creditors	*2,35,000*	*R's Capital*	*75,000*
Bills payable	*1,00,000*		
Mrs. Q's loan	*1,75,000*		
Total	*15,30,000*	*Total*	*15,30,000*

Additional information are given as under:

(i) During the year R sold Investments costing of ₹ 45,000 at ₹ 56,000 and the said funds were transferred to his personal account. This transaction was not recorded in the firm's books.

(ii) A cheque for ₹ 30,000 was received from debtor, not recorded in the books and was misappropriated by R.

(iii) A Trade creditor agreed to takeover stock of the book value of ₹ 25,000 at ₹ 26,500. The rest of the Trade creditors were paid off at a discount of 2%.

(iv) The bills payable were settled at a discount of 2%.

(v) The expenses of dissolution amounted to ₹ 15,900.

(vi) The other assets realized were as follows:

Plant & Machinery :	*5% above the book value*
Stock :	*Rest of the stock realized at a loss of ₹ 15,000*
Investments :	*Rest of investments were sold at a profit of ₹ 5,600*
Debtors :	*Rest of the debtors were realized at a discount of 12%.*

(vii) Q agreed to takeover loan of Mrs. Q of ₹ 1,75,000.

(viii) The realizable value of R's private assets would only be ₹ 20,000.

Applying the principles laid down in Gamer vis. Murray, prepare Realization Account, Cash Account and Partner's Capital Accounts. ***(16 Marks)***

Answer

Realization account

Particulars		₹	Particulars		₹
To	Plant and Machinery	6,00,000	By	Trade creditors	2,35,000
To	Stock	4,27,500	By	Bills payable	1,00,000
To	Investment	1,45,000	By	Cash-	

To Debtors		2,10,000	Plant and machinery	6,30,000	
To Cash-creditors paid (W.N.1)		2,04,330	Stock (W.N.4)	3,87,500	
To Cash-expenses		15,900	Investments (W.N.2)	1,05,600	
To Cash-bills payable (1,00,000-2,000)		98,000	Debtors (W.N. 3)	<u>1,58,400</u>	12,81,500
To Q's capital account		1,75,000	By Mrs. Q's Loan account		1,75,000
To Partners' Capital A/cs:			By Debtors-unrecorded		30,000
P	885		By Investments-unrecorded		56,000
Q	531				
R	<u>354</u>	1,770			
		<u>18,77,500</u>			<u>18,77,500</u>

Cash Account

Particulars		*Amount* ₹	*Particulars*		*Amount* ₹
To Balance b/d		72,500	By Realization A/c-creditors paid		2,04,330
To Realization A/c– assets realized			By Realization A/c-bills payable		98,000
Plant and machinery		6,30,000	By Realization A/c-expenses		15,900
Stock		3,87,500	By Capital accounts:		
Investments (W.N.2)		1,05,600	P	4,51,157	
Debtors (W.N. 3)		1,58,400	Q	<u>6,04,613</u>	10,55,770
To R's capital A/c		20,000			
		<u>13,74,000</u>			<u>13,74,000</u>

Partners' Capital Accounts

Particulars	*P*	*Q*	*R*	*Particulars*	*P*	*Q*	*R*
	₹	₹	₹		₹	₹	₹
To Balance b/d			75,000	By Balance b/d	4,50,000	4,50,000	-
To Debtors-misappropriation			30,000	By General reserve	60,000	36,000	24,000
To Investment-misappropriation			56,000	By Mrs. Q loan		1,75,000	
To R's capital A/c (W.N. 5)	59,728	56,918		By Realization A/c (profit)	885	531	354
To Cash A/c	4,51,157	6,04,613		By Cash A/c			20,000
				By P's capital A/c			59,728
				By Q's capital A/c			56,918
	5,10,885	6,61,531	1,61,000		5,10,885	6,61,531	1,61,000

Working Notes:

1. Amount paid to creditors

	₹
Book value	2,35,000
Less: Creditors taking over Stock	(26,500)
	2,08,500
Less: Discount @ 2%	(4,170)
	2,04,330

2. Amount received from sale of investments

	₹
Book value	1,45,000
Less: Misappropriated by R	(45,000)
	1,00,000
Add: Profit on sale of investments	5,600
	1,05,600

3. Amount received from debtors

	₹
Book value	2,10,000
Less: Unrecorded receipt	(30,000)
	1,80,000
Less: Discount @ 12%	(21,600)
	1,58,400

4. Amount received from sale of stock

	₹
Book value	4,27,500
Less: Taken by creditors	(25,000)
	4,02,500
Less: Loss on stock	(15,000)
	3,87,500

5. Deficiency of R

	₹
Balance of capital as on 31st March, 2020	75,000
Debtors-misappropriation	30,000
Investment-misappropriation	56,000
	1,61,000
Less: Realization profit	(354)
General reserve	(24,000)
Contribution from private assets	(20,000)
Net deficiency of capital	1,16,646

The deficiency of ₹ 1,16,646 in R's capital account has been shared by other partners P Q in their capital ratio (after transfer of general reserve to capital accounts ie. 5,10,000: 4,86,000). Hence, P's share of deficiency = [1,16,646 x (510/996)] = `59,728 and Q's share of deficiency = [1,16,646 x (486/996)] = `56,918.

Question 3

(a) The summarized Balance Sheet of SM Limited as on 31st March, 2020 was as follows:

Particulars				**Amount in ₹**
1.	**Equity and liabilities**			
	a.	**Shareholder's fund**		
		Share capital		
		(60,000 Equity Shares of ₹ 10 Each)		6,00,000
		Reserve & Surplus		
		Security premium	₹ 70,000	
		General reserve	₹ 63,000	
		Profit and Loss	₹ 1,40,000	2,73,000
	b.	**Non-current liability**		
		9% debentures (secured)		3,00,000
	c.	**Current Liabilities**		
		Term loan		40,000
		Creditors		65,000
		Provision for taxation		15,000
				12,93,000
2.	**Assets**			
	a.	**Non-current assets**		
		Property plant and equipment		6,00,000
	b.	**Non-current investment**		1,50,000
	c.	**Current assets**		
		Stock	₹ 2,00,000	
		Debtors	₹ 2,60,000	
		Bank	₹ 83,000	5,43,000
				12,93,000

The shareholders adopted the resolution on 31st March, 2020 to:

(i) Buy back 25% of the paid up capital @ ₹ 15 each.

(ii) Issue 10% debentures of ₹ 60,000 at a premium of 10% to finance the buyback of shares.

(iii) Maintain a balance of ₹ 20,000 in General Reserve.

(iv) Sell investments worth ₹ 1,00,000 for ₹ 80,000.

(v) Buy back expenses were ₹ 2,000.

You are required to pass necessary journal entries to record the above transactions and prepare Ledger of Bank Account. ***(8 Marks)***

(b) BGH Limited issued to public 1,50,000 equity shares of ₹ 100 each. ₹ 60 per share was payable along with application and the balance on allotment. The issue was underwritten equally by A, B and C for a commission of 5%. Application for 1,40,000 shares were received including firm underwriting.

Underwriter	Firm Underwriting	Marked Application
A	5,000 Shares	40,000 Shares
B	5,000 Shares	46,000 Shares
C	3,000 Shares	34,000 Shares

Unmarked Application 7,000 shares

It was agreed to credit the unmarked application equally to A and C. BGH Limited accordingly made the allotment and received the amount due from public. The underwriters settled their accounts. (Treat application of shares in Firm Underwriting as Marked Applications)

You are required to prepare a statement showing the liability of the underwriters in shares as well as in amount. ***(8 Marks)***

Answer

(a) **In the books of SM Limited**

Journal Entries

	Particulars	Dr. ₹	Cr. ₹
1.	Equity share capital A/c (15,000 x ₹10) Dr.	1,50,000	
	Premium on buyback A/c (15,000 x ₹5) Dr.	75,000	
	To Equity shares buy back or Equity shareholders A/c (15,000 x ₹15)		2,25,000
	(Being the amount due to equity shareholders on buy back)		

2.	Equity shares buy back/Equity shareholders A/c Dr.	2,25,000	
	To Bank A/c		2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares as per the Companies Act)		
3.	Bank A/c Dr.	66,000	
	To 10 % Debentures A/c		60,000
	To Securities Premium A/c		6,000
	(Being 14 % debentures issued to finance buy back)		
4.	Buyback Expenses A/c Dr.	2,000	
	To Bank A/c		2,000
	(Buyback expenses paid)		
5.	Bank A/c Dr.	80,000	
	Profit and Loss A/c (Loss on sale of investment) Dr.	20,000	
	To Investment A/c		1,00,000
	(Being investment sold at loss)		
6.	General reserve Dr.	43,000	
	Profit and Loss A/c Dr.	1,07,000	
	To Capital redemption reserve A/c		1,50,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)		
7.	Securities Premium Dr.	75,000	
	Profit and Loss A/c Dr.	2,000	
	To Premium on buyback		75,000
	To Buyback Expenses A/c		2,000
	(Being premium on buyback and buyback expenses charged to securities premium and profit and loss account)		

Bank Account

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Balance b/d	83,000	By Equity Shareholders A/c	2,25,000
To Investment A/c	80,000	By Expenses on buy back of shares	2,000
To 10% Debentures and	66,000		

Securities premium		By Balance c/d	2,000
Total	2,29,000	Total	2,29,000

Note: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. Issue of debentures has been excluded for the purpose of "specified securities" and the entire amount of ₹ 1,50,000 has been credited to CRR while solving the question.

(b) Statement showing liability of underwriters

	A	*B*	*C*
Gross Liability	50,000	50,000	50,000
Less: Marked applications including firm underwriting	(45,000)	(51,000)	(37,000)
	5,000	(1,000)	13,000
Less: Unmarked applications (in equal ratio to A and C)	(3,500)		(3,500)
Net Liability	1,500	(1,000)	9,500
Surplus of B allocated equally to A and C	(500)		(500)
	1,000	-	9,000
Add: Firm underwriting	5,000	5,000	3,000
Total liability of underwriters	6,000	5,000	12,000
Total Liability in Amount @ ₹ 100/- per share	6,00,000	5,00,000	12,00,000
Less : Firm underwritten shares at ₹ 60 per share	(3,00,000)	(3,00,000)	(1,80,000)
	3,00,000	2,00,000	10,20,000
Underwriting Commission	(2,50,000)	(2,50,000)	(2,50,000)
Amount Payable by underwriter	50,000		7,70,000
Amount Receivable by underwriter		(50,000)	

Note: The solution is given on the basis that number of shares for which the marked applications were received, as provided in the question, does not include firm underwritten shares.

Question 4

The summarized Balance Sheet of ZED Limited as on 31st March, 2020 is as under:

Balance Sheet as at 31st March, 2020

	Particulars		Amount ₹
I	***Equity and Liabilities***		
1.	***Shareholders Fund***		
	Share Capital		
	50000 equity shares of ₹ 100 each fully paid		*50,00,000*
	25000, 10 preference shares of ₹ 100 each fully paid		*25,00,000*
	Reserve & Surplus		
	(a) Securities Premium Account		*1,87,500*
	(b) Profit & Loss Account		*(28,75,000)*
2.	***Non-Current Liabilities***		
	Long Term Borrowings		
	7% Debentures of ₹ 100 each		*5,00,000*
3.	***Current Liabilities***		
	Other Current Liabilities		
	(a) Creditors		*12,50,000*
	(b) Loan from Director		*2,50,000*
	Total Liabilities		*68,12,500*
II	***Assets***		
1.	***Non-Current Assets***		
	Property, Plant and Equipment		
	(a) Land & Building	*25,00,000*	
	(b) Plant & Machinery	*15,00,000*	*40,00,000*
	Intangible Assets		
	Goodwill		*5,00,000*
2.	***Current Assets***		
	(a) Debtors	*15,00,000*	

	(b) Stock	*6,25,000*	
	(c) Cash at Bank	*1,87,500*	*23,12,500*
	Total Assets		*68,12,500*

No Dividend on Preference Shares has been paid for last 3 Years.

The following scheme of reorganization was duly approved by the Tribunal:

(i) Each equity share of ₹ 100 to be reduced to ₹ 25.

(ii) Each existing Preference Share of ₹ 100 to be reduced to ₹ 75 and then exchange for one new 13 % Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each.

(iii) The Debenture Holders be given the option to either accept 90 % of their claims in cash or to convert, their claims in full into new 13% Preference Shares of ₹ 50 each issued at par. One-fourth (in value) of the Debenture Holders accepted Preference Shares for their claims. The rest were paid in cash.

(iv) Directors have agreed to forgone 20% their claim in respect of loan and agree to have equity shares for rest of the Loan.

(v) 20,000 new Equity Shares of ₹ 25 each are to be issued at par and full amount is payable at the time of application.

(vi) Preference Shareholders have forgone their right for dividend for two years. One year's dividend at the old rate is however payable to them in fully paid equity shares of ₹ 25.

(vii) Total expenses incurred by the Company in connection with the Scheme amounted to ₹ 25,000.

(viii) Goodwill does not have any value in the present and other remaining assets are valued as follows;

Plant & Machinery	*:*	*Decreased by ₹ 3,75,000*
Stock	*:*	*Decreased by ₹ 1,25,000*
Debtors	*:*	*Decreased by ₹ 2,50,000*
Land & Building	*:*	*Increased by ₹ 6,25,000*

You are required to :

(a) Pass necessary Journal Entries to record the above transactions.

(b) Prepare the resultant Balance sheet (after reorganization) as on 31st March, 2020.

(16 Marks)

Answer

Journal Entries in the books of Zed Ltd.

Particulars		*Amount (₹)*	*Amount (₹)*
1. Equity Share Capital (₹ 100) A/c	Dr.	50,00,000	
To Equity Share Capital (₹ 25) A/c			12,50,000
To Capital Reduction [1] A/c			37,50,000
(Being Equity Shares of ₹ 100 each reduced to ₹ 25 each and balance transferred to Capital Reduction A/c)			
2. 10% Preference Share Capital (₹ 100) A/c	Dr.	25,00,000	
To 10% Preference Share Capital (₹ 75) A/c			18,75,000
To Capital Reduction A/c			6,25,000
(Being Preference Shares of ₹ 100 each reduced to ₹ 75 each and balance transferred to Capital Reduction A/c)			
3. 10% Preference Share Capital (₹ 75) A/c	Dr.	18,75,000	
To 13% Preference Share Capital (₹ 50) A/c			12,50,000
To Equity Share Capital A/c (₹ 25)			6,25,000
(Being one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each issued against 10% Preference Share of ₹ 75 each)			
4. Capital Reduction A/c	Dr.	2,50,000	
To Preference Share Dividend Payable A/c			2,50,000
(Being arrear of Preference Share Dividend payable for one year)			
5. Preference Share Dividend Payable A/c	Dr.	2,50,000	
To Equity Share Capital A/c (₹ 25)	.		2,50,000
(Being Equity Shares of ₹ 25 each issued for arrears of Preference Share Dividend)			
6. 7% Debenture A/c	Dr.	5,00,000	
To Debenture Holders A/c			5,00,000
(Being balance of 7% Debentures transferred to Debenture Holders A/c)			

[1] *In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used.*

7. Debenture Holders A/c	Dr.	5,00,000	
To 13% Preference Share Capital A/c (₹ 50)			1,25,000
To Bank A/c			3,37,500
To Capital Reduction A/c			37,500
(Being 25% of Debenture Holders opted to take 13% Preference Shares at par and remaining took 90% cash payment for their claims)			
8. Loan from Director	Dr.	2,50,000	
To Capital Reduction A/c			50,000
To Equity Share Capital A/c (₹ 25)			2,00,000
(Being equity shares issued for 80% of loan from Director and 20% forgone by them)			
9. Bank A/c	Dr.	5,00,000	
To Equity Share Application & Allotment A/c			5,00,000
(Being application money received on 20,000 Equity Shares @ ₹ 25 each)			
10. Equity Share Application & Allotment A/c	Dr.	5,00,000	
To Equity Share Capital A/c			5,00,000
(Being application money transferred to Capital A/c on allotment)			
11. Land & Building A/c	Dr.	6,25,000	
To Capital Reduction A/c			6,25,000
(Being value of land & Building appreciated)			
12. Expenses on Reconstruction A/c	Dr.	25,000	
To Bank A/c			25,000
(Being payment of expenses on reconstruction)			
13. Capital Reduction A/c	Dr.	48,37,500	
To Goodwill A/c			5,00,000
To Plant & Machinery A/c			3,75,000
To Stock A/c			1,25,000
To Debtors A/c			2,50,000
To Profit & Loss A/c			28,75,000
To Expenses on Reconstruction A/c			25,000
To Capital Reserve A/c			6,87,500

(Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c)			

Balance Sheet of Zed Ltd. (And Reduced) as at 31st March, 2020

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	42,00,000
(b) Reserves and Surplus	2	8,75,000
(2) Current Liabilities		
(a) Trade payables		12,50,000
		63,25,000
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	3	42,50,000
(2) Current assets		
(a) Inventories		5,00,000
(b) Trade receivables		12,50,000
(c) Cash and cash equivalents		3,25,000
Total		63,25,000

Notes to Accounts

		₹
1.	Share Capital	
	Authorized, issued and fully paid up	
	1,13,000 Equity shares of ₹25 each fully paid-up	28,25,000
	27,500 13% Preference Share of ₹ 50 each fully paid up	13,75,000
		42,00,000
2.	Reserve and Surplus	
	Capital Reserve	6,87,500
	Securities Premium	1,87,500
		8,75,000

3.	Property, plant and equipment	
	Land and building	31,25,000
	Plant and Machinery	11,25,000
		42,50,000
4	Other Current Assets	
	Cash and Bank Balance (1,87,500 + 5,00,000 - 3,37,500 -25,000)	3,25,000

Question 5

(a) (i) *The following balances are extracted from the Trial Balance of Assured Bank Limited as on 31st March, 2020 :*

Particulars	*Dr. ₹*	*Cr. ₹*
Bills discounted and purchased	*2,40,000*	
Rebate for bills discounted (1.4.19)[2]		*12,000*
Interest and Discounts		*58,80,000*

It is found that the proportionate discounts not yet earned for bills to mature in F.Y. 2019-2020 amounted to ₹ 8,400. Prepare relevant Ledger Accounts.

(ii) *The following figures were also available for Assured Bank Limited:*

- *On 01st April, 2019 Acceptance, Endorsement etc. not yet satisfied amounted to ₹ 29,00,000.*
- *During the year, Acceptance, Endorsements, Guarantees, etc. were ₹ 88,00,000.*
- *The Bank honored acceptances of ₹ 55,00,000 and a client paid off ₹ 20,00,000 against the guaranteed liabilities.*
- *The Bank paid ₹ 2,00,000 which clients failed to pay.*

Pass necessary Journal Entries with narration and prepare "Acceptances, Endorsements and other Obligations Account" in the General Ledger.

(b) *Ayushman General Insurance Company submits the following information for the year ended 31st March, 2020 :*

Particulars	*Direct Business (₹)*	*Reinsurance (₹)*
Premium received	*52,67,500*	*5,77,500*

[2] *This date was missing in the question paper.*

Premium paid	*-*	*3,43,000*
Claim paid during the year	*34,79,000*	*3,57,000*
Claim payable:		
01st April, 2019	*4,79,500*	*66,500*
31st March, 2020	*5,16,600*	*49,000*
Claims received	*-*	*2,76,500*
Claims receivable:		
01st April, 2019	*-*	*52,500*
31st March, 2020	*-*	*87,500*
Commission :		
On Insurance accepted	*1,12,000*	*10,500*
On Insurance ceded	*-*	*12,600*

The Other Expenses and Income are as under:

(1) Expenses:

(a) Rent, Rates & Taxes - ₹12,000

(b) Establishment Expenses - ₹ 30,000

(c) Legal Expense (inclusive of ₹ 20,000 in connection with settlement of claims) - ₹50,000

(2) Income:

(a) Interest, dividend, rentals (net) - ₹ 11,000.

(b) Income tax deducted on above source - ₹ 2,400

(3) Reserve for unexpired risk is to be maintained @ 40%.

The balance of Reserve for unexpired risk as on 01st April, 2019 was ₹ 19,88,000.

You are required to make the Revenue Account for the year ended 31st March, 2020.

(6+10=16 Marks)

Answer

(a) (i) Rebate on Bills Discounted Account

		₹			₹
31.3.20	To Interest and Discount A/c	3,600	1.4.19	By Balance b/d	12,000
	To Balance c/d	8,400			
		12,000			12,000

Interest & Discount Account

		₹			₹
31.3.20	To Profit & Loss A/c	58,83,600	31.3.20	By Balance By Rebate on Bills discounted A/c	58,80,000 3,600
		58,83,600			58,83,600

(ii) Journal entries in the Books of Assured Bank Ltd.

Constituents' Liability for Acceptance, Endorsement A/c	Dr.	88,00,000	
To Acceptances, Endorsement & other Obligations A/c			88,00,000
(Being liability accepted during the year)			
Acceptances, Endorsement & other Obligations A/c	Dr.	55,00,000	
To Constituents' Liability for Acceptance, Endorsement A/c			55,00,000
(Bering Bank honored acceptances against guaranteed bills)			
Acceptances, Endorsement & other Obligations A/c	Dr.	20,00,000	
To Constituents' Liability for Acceptance, Endorsement A/c			20,00,000
(Being client paid off against guaranteed bills)			
Acceptances, Endorsement & other Obligations A/c	Dr.	2,00,000	
To Constituents' Liability for Acceptance, Endorsement A/c			2,00,000
(Being Bank paid off against guaranteed bills which clients failed to pay)			

Acceptances, Endorsement & other Obligations Account in the general ledger

		₹			₹
2019-20	To Constituents' Liability for Acceptance, Endorsement, etc.	55,00,000	1.4.19	By Balance b/d	29,00,000
	To Constituents' Liability for Acceptances, Endorsement etc.	20,00,000	2019-20	By Constituents, Liabilities for Acceptances, Endorsements etc.	88,00,000
	To Constituents' Liability for Acceptances, Endorsements, etc. (amount paid on failure of clients)	2,00,000			
31.3.20	To Balance c/d	40,00,000			
		117,00,000			117,00,000

(b) **Form B-RA (Prescribed by IRDA)**

Ayushman General Insurance Company

Revenue Account for the year ended 31st March, 2020

Particulars	*Schedule*	*Amount (₹)*
Premium earned (net)	1	52,89,200
Profit / Loss on sale / redemption of investments		
Others (to be specified)		
Interest, dividend and rent (gross)		13,400
Total (A)		53,02,600
Claims incurred (Net)	2	35,64,100
Commission	3	1,09,900
Operating expenses related to insurance business	4	72,000
Total (B)		37,46,000
Operating profit from insurance business (A-B)		15,56,600

Schedules forming part of revenue account

Schedule 1 : Premium Earned (Net)

Particulars	₹
Premium from direct business	52,67,500
Add: Premium on reinsurance accepted	5,77,500
Less: Premium on reinsurance ceded	(3,43,000)
Net premium	55,02,000
Adjustment for change in reserve for unexpired risks (W.N.2)	(2,12,800)
Total premium earned (net)	52,89,200

Schedule 2 : Claims Incurred (Net)

Particulars	₹
Claims paid on direct business (W.N.1)	35,36,100
Add: Re-insurance accepted (W.N.1)	3,39,500
Less: Re-insurance ceded (W.N.1)	(3,11,500)
Net claims paid	35,64,100

Schedule 3 : Commission

Particulars	₹
Commission paid on direct business	1,12,000
Add: Commission on reinsurance accepted	10,500
Less: Commission on reinsurance ceded	(12,600)
	1,09,900

Schedule 4 : Operating Expenses related to Insurance Business

Particulars	₹
Rent, rates and taxes	12,000
Establishment expenses	30,000
Legal expenses (50,000 - 20,000)	30,000
	72,000

Working Notes:

1. **Claims incurred**

Particulars	*Direct business (₹)*	*Re-insurance accepted (₹)*	*Re-insurance ceded (₹)*
Paid/received	34,79,000	3,57,000	2,76,500

Add: Outstanding at the end of year	5,16,600	49,000	87,500
Expenses in connection with settlement of claim	20,000		
Less: Outstanding at the beginning of the year	(4,79,500)	(66,500)	(52,500)
	35,36,100	3,39,500	3,11,500

2. Change in reserve for unexpired risk

	₹
Opening reserve as on 31st March, 2019	19,88,000
Less: Closing reserve as on 31st March, 2020 (₹ 55,02,000 x 40%)	(22,00,800)
Additional provision required	(2,12,800)

NOTE: Interest and dividends are shown at gross value in Revenue account. Income tax on it will not be included in the Revenue account as it is the part of Profit and Loss account of an insurance company.

Question 6

(a) M/s. A-One Jewellers has 2 Departments 'Precious Stones' and 'Precious Metals'.

The following figures are available for the year ended 31st March, 2020 :

Particulars	*Department 'Precious Stones' (₹)*	*Department 'Precious Metals' (₹)*
Opening Stock	*20,00,000*	*25,00,000*
Purchases	*75,00,000*	*50,00,000*
Sales	*1,25,00,000*	*75,00,000*
Salaries	*8,40,000*	*6,00,000*

The following are the other expenses of A-One Jewellers:

Particulars	*Amount ₹*
General Salaries	*10,00,000*
Carriage Inward	*5,00,000*
Carriage Outward	*8,00,000*
Advertising	*6,00,000*
Rent and Taxes	*9,00,000*
Interest on Bank Loan	*2,50,000*

Lighting	*1,20,000*
Discount Received	*1,50,000*
Insurance	*1,00,000*

Other Information:

Area occupied by the two Departments is in the ratio of 2: 1. General Salaries are to be allocated equally.

Insurance premium is for a comprehensive policy, allocation being inconvenient.

Closing Stocks were for Precious Stones ₹ 18,00,000 and for Precious Metals ₹ 20,00,000.

You are required to prepare the Departmental Trading and Profit & Loss Account and the General Profit & Loss Account for the year ended 31st March, 2020. ***(6 Marks)***

(b) *M/s Royal Trading whose Head Office is in New York has a branch in Hyderabad, India. As on 31st March, 2020 the following balances appeared in the books of Hyderabad Branch:*

Particulars	*Amount in ₹*	*Amount in ₹*
	Dr.	*Cr.*
Stock on 1st April, 2019	*5,02,200*	*-*
Purchases and Sales	*33,75,000*	*49,72,500*
Debtors and Creditors	*16,47,000*	*10,98,000*
Bills Receivable and Payable	*4,39,200*	*3,84,300*
Salaries and wages	*1,62,000*	*-*
Rent, Rates and Insurance	*2,29,500*	*-*
Commission received	*-*	*90,000*
Trade expenses	*54,000*	
Furniture	*1,95,300*	*-*
Bank A/c	*12,24,270*	
New York Account	*-*	*12,83,670*
Total	*78,28,470*	*78,28,470*

Other information are as follows:

(a) *Hyderabad branch account in New York books is showing a debit balance of US $ 24,120.*

(b) *Closing Stock as on 31st March, 2020 was ₹ 11,46,800.*

(c) Furniture appeared in the Head Office books at US $ 3,150.

(d) The rate of exchange for 1 US $ on 31st March, 2019 was ₹ 62 and on 31st March, 2020 was ₹ 61. The average rate of US $ for the year was ₹ 60.

(e) Salary outstanding ₹ 10,980.

You are asked to :

(i) Prepare Trial Balance incorporating adjustments given, converting Indian rupees into US dollar.

(ii) Prepare in US dollars Trading and Profit and Loss a/c for the year ended 31st March, 2020 and Balance Sheet of the Hyderabad Branch as would appear in the books of Head Office (New York office) of M/s Royal Trading. ***(10 Marks)***

Answer

(a) **Departmental Trading & P&L A/c**

		Deptt. Precious Stones	*Deptt. Precious Metals*			*Deptt. Precious Stones*	*Deptt Precious Metals*
To	Opening stock	20,00,000	25,00,000	By	Sales	125,00,000	75,00,000
To	Purchases	75,00,000	50,00,000	By	Closing Stock	18,00,000	20,00,000
To	Carriage inwards (3:2)	3,00,000	2,00,000				
To	Gross profit	45,00,000	18,00,000				
		143,00,000	95,00,000			143,00,000	95,00,000
				By	Gross profit	45,00,000	18,00,000
				By	Discount (3:2)	90,000	60,000
To	Salaries	8,40,000	6,00,000	By	General P&L A/c	-	1,05,000
To	General Salaries	5,00,000	5,00,000				
To	Carriage outwards (5:3)	5,00,000	3,00,000				
To	Advertisement (5:3)	3,75,000	2,25,000				
To	Rent & Rates (2:1)	6,00,000	3,00,000				
To	Lighting (2:1)	80,000	40,000				
To	General P&L A/c	16,95,000	____			____	____
		45,90,000	19,65,000			45,90,000	19,65,000

General P&L A/c

To	Department- Precious Metals (net loss)	1,05,000	By	Department -Precious Stones (net profit)	16,95,000
To	Interest on loan	2,50,000			
To	Insurance	1,00,000			
To	Net profit	12,40,000			
		16,95,000			16,95,000

(b) M/s Royal Trading - Hyderabad Branch Trial Balance in (US $) as on 31.3.2020

	Conversion rate per US $ *(Rs.)*	*Dr.* US $	*Cr.* US $
Stock on 1.4.19	62	8,100	–
Purchases and sales	60	56,250	82,875
Sundry debtors and creditors	61	27,000	18,000
Bills of exchange	61	7,200	6,300
Salaries and wages (including o/s salary)	60	2,883	–
Rent, rates and insurance	60	3,825	–
Commission received	60		1,500
Tarde expenses	60	900	–
Furniture	–	3,150	–
Bank balance	61	20,070	–
New York A/c	–	–	24,120
Outstanding salary	61		180
Foreign exchange difference		3,597	
		1,32,975	1,32,975

Trading and Profit & Loss Account for the year ended 31st March, 2020

	US $		*US $*
To Opening Stock	8,100	By Sales	82,875
To Purchases	56,250	By Closing stock	18,800
To Gross profit	37,325		
	1,01,675		1,01,675

To Foreign exchange loss	3,597	By Gross profit	37,325
To Salaries and wages (including outstanding salary)	2,883	By commission received	1,500
To Rent, rates and insurance	3,825		
To Trade expenses	900		
To Net profit	27,620		
	38,825		38,825

Balance Sheet of Hyderabad Branch as on 31st March, 2020

Liabilities		*US $*	*Assets*	*US $*
New York Office A/c	24,120		Furniture	3,150
Add : Net profit	27,620	51,740		
Sundry creditors		18,000	Closing stock	18,800
Bills payable		6,300	Sundry debtors	27,000
Outstanding salary		180	Bank balance	20,070
			Bills receivable	7,200
		76,220		76,220

Note: The branch has been considered as integral foreign operation in the given answer. Alternative answer considering otherwise also possible.

Question 7

Answer any ***four:***

(a) *Amounts payable in winding-up of a company are as follows:*

- *Secured Creditors ₹ 1,25,000*
- *Workmen's Due ₹ 2,50,000*

Show the payments made and treatment of balance in the following two instances :

(i) *If the security realized is ₹ 2,00,000*

(ii) *If the security realized is ₹ 1,00,000*

(b) *Classify the following NPA's of the SG Banking Limited:*

- *Loan Assets overdue for more than 3 months but less than 12 months: ₹ 150 Lakhs, fully secured.*
- *Loan Assets overdue for more than 12 months: ₹ 90 Lakhs, fully secured*

- *Loan Assets overdue for more than 36 months and considered uncollectible : ₹ 50 Lakhs. (This comprise of two assets worth ₹ 25 Lakhs each. One of these has a security value of ₹ 20 Lakhs).*

Also, give the amount of provisioning required in each case.

(c) *Explain the following Measurement basis:*

- *Historical Cost*
- *Current Cost*
- *Realizable Value*
- *Present Value.*

(d) *A Departmental Store having 3 departments has reported the following turnover and profits :*

Department	*Turnover ₹*	*Net Profit ₹*
Department X	*20,00,000*	*2,00,000*
Department Y	*30,00,000*	*2,50,000*
Department Z	*50,00,000*	*5,50,000*

Net Profit is after allocation of all expenses except Department's Manager Commission.

The Commission of each Departmental Manager is to be calculated as follows:

- *If the percentage departmental profits are either equal or less than the percentage of overall profits – 5%.*
- *If the percentage of departmental profits is more than the percentage of overall profits, the commission will be 5% of departmental profits which is equal to the percentage of overall profits on department's turnover, plus 25% of the departmental profit exceeding the percentage of overall profits.*

You are required to calculate the Commission of the Manager of each of the Department.

(e) *Dark and Light are partners in Global Enterprises sharing profit in the ratio of 2 : 1.*

They admit Bright as a partner on 1st April, 2017. Bright paid a premium of ₹ 50,000 each to Dark & Light at the time of his admission to the firm, with a condition that the firm will not be dissolved before expiry of 5 years. New Profit & Loss sharing ratio is 2 : 1 : 1.

The firm was dissolved on 31st March, 2020. Bright claims refund of the premium.

You are required to :

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

(ii) *Also list any 2 conditions when no claim in this respect will arise.*

(4 Parts X 5 Marks= 20 Marks)

Answer

(a) (i) If the value of the security (realized) of a secured creditor of a company is ₹ 2,00,000:

Particulars	Secured creditors	Workmen compensation	Total
Amount payable	1,25,000	2,50,000	3,75,000
Less : security realized and paid in pro rata 1:2	66,667	1,33,333	2,00,000
Balance treated as overriding pref. creditors	58,333	1,16,667	1,75,000
Balance treated as unsecured creditors	-	-	-

(ii) If the value of the security (realized) of a secured creditor of a company is ₹ 1,00,000:

Particulars	Secured creditors	Workmen compensation	Total
Amount payable	1,25,000	2,50,000	3,75,000
Less: security realized and paid in pro rata 1:2	33,333	66,667	1,00,000
Balance treated as overriding pref. creditors	66,667	1,83,333	2,50,000
Balance treated as unsecured creditors	25,000	-	25,000

Note: Unsatisfied portion of secured creditors to the extent which could not be paid because of their security being used for workmen's dues, is to be treated as overriding preferential payment and the remaining potion is to be treated as unsecured.

(b)

Assets	Classification	Amount (₹ in lakhs)	% of Provision	Provision (₹ in lakhs)
Overdue for more than 3 months but less than 12 months	Sub-standard	150	15	22.50
Overdue for more than 12 months	Doubtful less than 1 year	90	25	22.50

Overdue for more than three years (fully secured-secured by ₹ 20 lakhs)	Doubtful 1 to 3 years	20	40	8
Overdue for more than three years (unsecured)	Doubtful 1 to 3 years	5	100	5
Overdue for more than three years	Loss	25	100	25
Total provision				83

(c) 1. **Historical Cost:** Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are recorded at the amount expected to be paid to discharge the liability. Historical cost of an asset is cash or cash equivalent paid or fair value of other consideration given at the time acquisition of the asset. By historical cost convention liabilities are recorded at the amount of proceeds received in exchange of the obligation or in some cases the amount that is likely to be paid for settlement of liability in the normal course of business.

2. **Current Cost:** Current cost gives an alternative measurement basis. 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.

3. **Realizable Value**: For assets, this is the 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. As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents expressed to be paid to satisfy the liabilities in the normal course of business.

4. **Present Value:** Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention 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.

(d) Profit percentage of each department

Deptt. X	10%	(2,00,000/20,00,000)
Deptt. Y	8.33%	(2,50,000/30,00,000)
Deptt. Z	11%	(5,50,000/50,00,000)

Overall	10%	(10,00,000/100,00,000)

Commission of Manager for each department

Deptt. X	₹10,000 (₹2,00,000 x 5%)
Deptt. Y	₹12,500 (₹2,50,000 x 5%)
Deptt. Z	5% of department profit which is equal to % of overall profit on department turnover + 25% of the departmental profit exceeding the % of overall profits[3] = ₹ 50,00,000 X10% X5% + 25% of ₹50,000 = ₹ 37,500

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

The criteria for calculation of refund amount are:

(i) Terms upon which admission was made,

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

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

No claim for refund will arise if:

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

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

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

[3] *There is possibility of alternative computation based on other logical assumption due to lack of clarity in the basis of computation.*