Qn. 1. Answer the following questions : [10 x 2 = 20 marks]

(i) A Company had issued 20,000, 13% Convertible debentures of Rs.100 each on 1st April, 2007. The debentures are due for redemption on 1st July, 2009. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture-holders to convert 20% of their holding into equity shares (Nominal value Rs. 10) at a price of Rs. 15 per share. Debentureholders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debentureholders exercising the option to the maximum.

(ii) Santosh Ltd. has received a grant of Rs. 8 crores from the Govt. for setting up a factory in a backward area. Out of this grant, the company distributed Rs. 2 crores as dividend. Also, Santosh Ltd. received land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent. In the light of AS 12, examine, whether the treatment of both the grants is correct.

(iii) Rohini Limited has obtained loan from an Institution for Rs. 500 lacs for modernization and renovating its Plant and Machinery. The installation of plant and machinery was completed on 31.3.2009 amounting to Rs.320 lacs and Rs. 50 lacs advanced to suppliers of additional assets and the balance of Rs. 130 lacs has been utilized for working capital requirements. Total interest paid for the above loan amounted to Rs. 65 lacs during 2008-09 You are required to state how the interest on institutional loan is to be accounted for in the year 2008-09.

(iv) A Company follows April to March as its Financial Year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of Financial statement by debiting cheques in hand A/c and crediting Debtors A/c. The cheques in hand is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company ?

(v) What is Piecemeal payments method under Partnership Dissolution ? Briefly explain the two methods followed for determining the order in which the payments are made ?

(vi) Briefly explain "Reserve for Unexpired Risks" under General Insurance Business. What are the percentages of such reserve to be created under IRDA Act for various General Insurance ?

(vii) On 31st March, 2010, the following Ledger balances have been extracted from the books of Washington branch office :

Ledger A/c	$
Building	180
Stock as on 1.4.2009	26
Cash and Bank Balances	57
Purchases	96
Sales	110
Commission receipts	28
Debtors	46
Creditors	65

You are required to convert above Ledger balances into Indian Rupees.

Use the following rates of exchange :

Opening Rate $ = 46
Closing Rate $ = 50
Average Rate $ = 48
For Fixed Assets $ = 42

(viii) Mention the condition when a Cash credit overdraft account is treated as 'Out of order'.

(ix) From the following information, calculate the amount of Sundry Debtors as on 31.3.2010 :
Balance as on 1.4.2009 is Rs. 50,000.
Bad debts are 2% and discount to the customers is given @ 1% of the opening balance of Sundry Debtors.
Returns from the customers are Rs. 3,000.
Cash received from Debtors is Rs. 2,30,000.
Cash received from Debtors in transit is Rs. 14,000.
Cash Sales are Rs. 5,00,000.
Credit Sales are Rs. 2,50,000.

(x) Closing stock for the year ending on 31.3.2010 is Rs. 50,000 which includes stock damaged in a fire in 2008-09. On 31.3.2009 the estimated net realisable value of the damaged stock was Rs. 12,000. The revised estimate of net realisable value included in closing stock of 2009-10 is Rs. 4.000.

Find the value of Closing stock to be shown in Profit and Loss account for the year 2009-10.

Ans. 1(i) Total no. of debenture holders = 20000
Less:- Number of debenture
on which option has not been exercised = 2500
17500

Redeemable value = 17500 x 105 = 1837500
Convertible portion(redeemable value x 20%) = 1837500 x 20% = 367500
Value per share = Rs. 15
Number of shares = 367500/15 = 24500 shares

Ans. 1 (ii) As per AS-12, "Government grants" The purpose for which a grant is received it is ought to be utilized for the same. In the aforesaid case SANTOSH Ltd. received a grant of Rs. 3 crores from the government for setting up a factory, out of this the company distributed Rs. 2 crores as divided hence the treatment was wrong as per AS-12.

Also, as per AS-12, if an asset is received free of cost it should be recorded in books at a nominal value say Rs.100. The contention of SANTOSH Ltd. of non-recording such an asset in books is wrong, it should be recorded at a nominal value i.e. Rs.100.

Ans. 1 (iii) As per AS-16, borrowing costs (interest) should be capitalized if borrowing cost is directly attributable to the acquisition, construction, or production of a qualifying asset. In other words, asset acquired must be qualifying asset and borrowing cost should be directly attributable to the acquisition, construction or production of qualifying asset.

In the question, Rs. 500 lacs borrowed from financial institution was utilized for -

Modernisation and renovation of Plant & Machinery	Rs. 320 lacs
Advance to suppliers of additional assets	Rs. 50 lacs
Working Capital	Rs. 130 lacs

Out of these three payments only modernisation and renovation of Plant & Machinery of Rs. 320 lacs is a qualifying asset as per AS 16, other two payments are not for the qualifying asset. Therefore, borrowing cost attributable to the modernisation and renovation of Plant & Machinery should only be capitalized which will be equal to
Rs. 65 lacs x 320/500 = 41.60 lacs.

The balance of Rs. 23.40 lacs (65 – 41.6) should be expensed and debited to Profit & Loss Account.

Ans. 1 (iv) As per AS-4, Contingencies and events occurring after balance sheet date; there are two type of events
(1) Adjusting Events
(2) Non Adjusting Events

Adjusting events are those events which exists on the Balance Sheet and provide additional evidence after balance sheet date.

In the present question company received cheques dated on or before 31st march, after Balance Sheet date but before approval of financial statement and the cheques are shown in the Balance Sheet under the head Cash & Cash equivalents. As per AS 3, meaning of Cash & Cash Equivalents are as follows :
Cash : It consists of cash in hand and demand deposits.
Cash Equivalents : It consists of short term highly liquid investments having maturity less than three months, which can be readily converted, into cash without decline of its value. In other words, these investments can be converted into cash without any risk.

Since all cheques are presented to bank in the month of april and realized in the same month in normal course therefore it may be disclosed as cash equivalents. It is an adjusting events which calls for adjustments and has to be recognised in Balance Sheet.

DISCLOSURE REQUIREMENTS : The following information should be provided :
(a) the nature of event;

(b) an estimate of financial effect, or a statement that such an estimate can not be made.

Ans. 1 (v) When firm is dissolved all assets will not be realised immediately. The assets will be realised gradually. Therefore, either firm should not start payment until all assets have been realised or make the payment in installments or in piecemeal as and when assets are realised. As soon as decision to dissolve the firm is taken every claimant of the firm would press for payment. Therefore, second alternative will be adopted by the firm. In this case payment will be made in the following preferential order: (i) Outside Creditors (ii) Partners' Loan (iii) Partners Capital.

There are two methods for determining the order in which the payments are made :
(i) Highest Relative Capital Method : According to this method, capitals of partners are converted into profit sharing ratio and excess capital is calculated. For calculating excess capital, capital of the partner whose share is relatively minimum is taken as base.

(ii) Maximum Loss Method : According to this method, on each realisation it is assumed that there will be no further realisation. Amount of loss is calculated assuming no further realisation. This loss is called **'maximum loss'**. This maximum loss is divided among the partners in profit sharing ratio and deducted from their capitals. Balance amount is paid. Similarly, on next realisation again **maximum loss** is calculated and distributed among the partners. After deduction of maximum loss from capital if there is a negative balance (debit balance) of a partner, this will be divided among other partners in the ratio of their capitals. This method is also called conservative method.

Ans. 1 (vi) Reserve for Unexpired Risk: General Insurance policies are normally issued for a period of 12 months. At the time of closing of books, risk remains unexpired on most of the policies. Therefore, total premium received cannot be taken as income of the current year. Premium relating to next year is not calculated in proportion to unexpired period of the policy, because risk, is not reduced with the passage of time. Chances of claim on the last day of policy are as good as on the first day of policy. A reserve is created to cover this unexpired risk.

As per Schedule II-B "Valuation of Liabilities - General Insurance" of Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of Insurers) Regulations - 2000, Reserve for Unexpired Risk is to be created as under:

(i)	Fire Business	--	50%
(ii)	Miscellaneous Business	--	50%
(iii)	Marine Business other than Marine Hull Business (i.e. Cargo Insurance)	--	50%
(iv)	Marine Hull Business	--	100%

Above percentages will be calculated on net premium.

Reserve for unexpired risk account is shown in Balance Sheet (liabilities side)

Ans. 1 (vii)

Particulars	**Rate**		**Amount**	
	Details	Amount Rs.	$	Rs.
Building	Rate at the date of actual purchase	42	180	7560
Stock(1.4.2009)	Opening rate	46	26	1196
Cash & Bank	Closing rate	50	57	2850
Purchase	Average rate	48	96	4608
Sales	Average rate	48	110	5280
Commission Receipts	Average rate	48	28	1344
Debtors	Closing rate	50	46	2300
Creditors	Closing rate	50	65	3250

Ans. 1 (viii) A cash credit and overdrafts account will be treated as NPA if the account remains out of order for a period of 90 days. An account should be treated as out of order, if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power or, there are no credits in such period or credit is not enough to cover the interest debited during the same period.

Ans. 1 (ix) **Debtors A/c**

Particulars	Amount	Particulars	Amount

To Balance b/d	50,000	By Sales Returns	3,000
To Sales	2,50,000	By Cash (2,30,000 + 14,000)	2,44,000
		By Bad debts (50000 x 2%)	1,000
		By Discount to customers (50000 x 1%)	500
		By Balance c/d	6,500
	2,55,000		2,55,000

Ans. 1 (x) Value of Closing stock as on 31.3.2010 = 50000

Which includes abnormal item of Rs.12000 stock damaged by fire.

Hence Normal value of stock = 50000 – 12000 = 38000

Net Reliasable Value of abnormal stock = Rs.4000 in 2009 – 10.

Hence the Value of Closing stock to be share in Profit and loss A/c for the year 2009-10.

=> Value of Closing stock (normal item) + abnormal item. (NRV).

38000 + 4000 = Rs. 42000

Note : It is assumed that Cost of abnormal item was more than its NRV as on 31.3.2010.

Qn 2. P and Q are partners of P & Co. sharing Profit and Losses in the ratio of 3 : 1 and Q and R are partners of R & Co., sharing Profits and Losses in the ratio of 2 : 1. On 31st March, 2009, they decide to amalgamate and form a new firm M/s. PQR & Co., wherein P, Q and R would be partners sharing Profits and Losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under : [16 marks]

Figures in Rs.

Liabilities	P & Co.	R & Co.	Assets	P & Co.	R & Co.
Capitals :			Fixed Assets :		
P	2,40,000	—	Building	50,000	60,000
Q	1,60,000	2,00,000	Plan & Machinery	1,50,000	1,60,000
R	--	1,00,000	Office equipment	20,000	6,000
Reserves	50,000	1,50,000	Current Assets :		
Sundry Creditors	1,20,000	1,16,000	Stock-in trade	1,20,000	1,40,000
Due to P & Co.	--	1,00,000	Sundry Debtors	1,60,000	2,00,000
Bank Overdraft	80,000	--	Bank Balance	30,000	90,000
			Cash in hand	20,000	10,000
			Due from R & Co.	1,00,000	--
	6,50,000	6,66,000		6,50,000	6,66,000
	=======	======		=======	======

The amalgamated firm took over the business on the following terms :

(a) Building of P & Co. was valued at Rs. 1,00,000.
(b) Plant and Machinery of P & Co. was valued at Rs. 2,50,000 and that of R & Co. at Rs. 2,00,000.
(c) All Stock in Trade is to be appreciated by 20%.
(d) Goodwill valued of P & Co. at Rs. 1,20,000 and R & Co. at Rs. 60,000, but the same will not appear in the books of P Q R & Co.
(e) Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the Profit sharing ratio.
(f) Provisions for doubtful debts has to be carried forward at Rs. 12,000 in respect of debtors of P & Co. and Rs. 26,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and Capital accounts of the partners in the books of old firms.

Ans. 2 **Calculation of Adjustment of Goodwill**

Raised in the old Profit sharing Ratio	Writing off In New Profit Sharing Ratio	Diff.

	P & Co.	Q & Co.	Total	P Q R & Co.	
P	90000	--	90000 Cr.	90000 Dr.	--
Q	30000	40000	70000 Cr.	60000 Dr.	10000 Cr.
R	--	20000	20000 Cr.	30000 Dr.	10000 Dr.
	120000	60000	180000	180000	

Note : No entry for goodwill in the books of old firms and the above adjustments will be made in new firms.

Balance Sheet of M/s P Q R & Co.

Liabilities		Amount	Liabilities	Amount
Capital A/cs			Fixed Assets	
P	8,26,500		Building	1,60,000
Q	5,51,000		Plant & Machinery	4,50,000
R	2,75,500	16,53,000	Office Equipment	26,000
Sundry Creditors		2,36,000		
Bank O/D		80,000	Current Assets	
Provision for Bad & doubtful debts		38,000	Stock in trade	3,12,000
			Sundry Debtors	3,60,000
			Bank balance	1,20,000
			Cash in hand	5,79,500
		20,07,000		20,07,000
		=======		=======

Partner's Capital A/c in the books of P & Co.

Particulars	P	Q	Particulars	P	Q
To Balance c/d	3,99,000	2,13,000	By Balance b/d	2,40,000	1,60,000
			By Reserves	37,500	12,500
			By Revaluation A/c	1,21,500	40,500
	3,99,000	2,13,000		3,99,000	2,13,000

Revaluation A/c in the books of P & Co.

Particulars		Amount	Particulars	Amount
To Provision for doubtful debts		12,000	By Building	50,000
To Partners Capital A/c			By Plant & Machinery	1,00,000
P	1,21,500		By Stock	24,000
Q	40,500	1,62,000		
		1,74,000		1,74,000
		=======		======

Partners Capital A/c in the books of R & Co.

Particulars	Q	R	Particulars	Q	R
To Balance c/d	3,28,000	1,64,000	By Balance b/d	2,00,000	1,00,000
			By Revaluation A/c	28,000	14,000
			By Reserves	1,00,000	50,000
	3,28,000	1,64,000		3,28,000	1,64,000

Revaluation A/c in the books of R & Co.

Particulars		Amount	Particulars	Amount
To Provision for doubtful debts		26,000	By Plant & Machinery	40,000
To Partners Capital A/c			By Stock in Trade	28,000
P	28,000			
Q	14,000	42,000		
		68,000		68,000
		======		=======

Calculation of Capital of the Partners in new firm

Particulars	P	Q	R
Transferred from P & Co.	3,99,000	2,13,000	--
Transferred from R & Co.	--	3,28,000	1,64,000
	-------------	------------	-----------
	3,99,000	5,41,000	1,64,000
± Adjustments for Goodwill	--	10,000	(10,000)
	------------	-----------	-----------
Capital Balance (A)	3,99,000	5,51,000	1,54,000
Profit Sharing Ratio	3	2	1
Capital Balance / PSR	1,33,000	2,75,500	1,54,000
Taking Q Capital as a Base capital total capital of the Partners (B)	8,26,500	5,51,000	2,75,500
Cash Brought by the Partners (B – A)	4,27,500	--	1,21,500

Qn. 3 Following is the Balance Sheet of XYZ Ltd. as on 31st March, 2010 : [16 marks]

Liabilities	Rs.	Assets	Rs.
8000 – 7½% Preference shares @ Rs. 100 each fully paid	8,00,000	Plant and Machinery	8,50,000
1,80,000 Equity shares @ Rs. 10 each fully paid	18,00,000	Furniture and Fittings	1,60,000
11% Debentures	10,00,000	Patents and Copy right	60,000
Bank overdraft	1,65,000	Goodwill	35,000
Loan from director	15,000	Investments (at cost)	65,000
Trade creditors	6,20,000	Sundry debtors	12,00,000
		Stock	13,00,000
		Cash in hand	12,000
		Profit & Loss A/c	7,18,000
	44,00,000		44,00,000

Due to heavy losses and overvaluation of Assets, the following scheme of reconstruction was finalised :

(i) Preference shareholder will surrender their 20% shares and they have been allotted 9% (new) preference shares for remaining amount.
(ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement.
(iii) Trade creditors accepted to take over the stock upto the value of Rs. 6,20,000.
(iv) Equity shareholders are to accept reduction of Rs. 4 per share.
(v) Investment is to be valued at market price i.e. Rs. 60,000.
(vi) Sundry debtors and remaining stock is to be valued at 90% of their book value.
(vii) Directors have to forgo their loan in full.
(viii) Patents and Copy Right and Goodwill have no more value.

Pass necessary Journal entries in the books of XYZ Ltd. assuming that all the legal formalities have Been completed. Prepare Capital reduction account and Balance Sheet of the company after reduction.

Ans. 3 **Journal entries in the books of XYZ Ltd.**

Date	Particulars	LF	Dr.	Cr.
			Rs.	Rs.
	7.5% preference share capital A/c (Rs. 100) Dr. To capital reduction A/c To 9% preference share capital A/c (Rs. 100) (Being 20% holding of preference share hoders surrendered and 9% preference share capital issued for the rest)		800000	 160000 640000
	11% debentures A/c Dr. To plant and machinery A/c To capital reduction A/c (Being debenture holder accepted plant and machinery in full settlement)		1000000	 850000 150000
	Trade creditors A/c Dr. To Stock A/c (Being creditors accepted to take over the stock upto the value of Rs. 620000)		620000	 620000

	Equity share capital A/c (Rs. 10) Dr. To capital reduction A/c " Equity Share Capital (Rs. 6) (Being equity shareholders accepted reduction of Rs. 4 per share and new share of Rs. 6 each fully paid up issued to them)		1800000	 720000 1080000
	Capital Reduction A/c Dr. To investments (Being investments have been marked to market)		5000	 5000
	Capital reduction A/c Dr. To sundry debtors A/c To stock A/c (Being sundry debtors and stock valued at 90% of their book value)		188000	 120000 68000
	Loan from Directors A/c Dr. To capital reduction A/c (Being directors forgone their loan in full)		15000	 15000
	Capital reduction A/c Dr. To goodwill A/c To patents A/c To P/L A/c (Being goodwill, patents and P/L(dr.) bal. written off)		813000	 35000 60000 718000
	Capital Reduction Dr To Capital Reserve a/c		39000	 39000

Capital reduction A/c

Particulars	**Amount**	**Particulars**	**Amount**
To Investments A/c To Sundry Debtors A/c To Stock A/c To Goodwill A/c To Patents A/c To P/L A/c To Capital Reserve A/c	5000 120000 68000 35000 60000 718000 39000	By 7.5% Preference share capital By 11% Debentures A/c By Equity share capital A/c By Loan from directors A/c	 160000 150000 720000 15000
	1685000		1685000

Balance Sheet of XYZ Ltd. as on 31 march, 2010

Liabilities	Amount	Asset	Amount
180000 equity share @ Rs. 6 each fully paid 9% preference share capital <u>Reserve and surplus:-</u> Capital Reserve Bank o/d	 1080000 640000 39000 165000	Furniture and fittings Investment(market value) Sundry debtors Stock Cash in hand	160000 60000 1080000 612000 12000
	1924000		1924000

Qn 4. (a) Ram Limited of Chennai has a branch at Nagpur to which office, goods are invoiced at cost plus 25%. The branch makes sales both for cash and on credit. Branch expenses are paid direct from Head Office and the branch has to remit all cash received into the Head Office Bank Account at Nagpur. [8 marks]

From the following details, relating to the year 2009, prepare the accounts in Head Office Ledger and ascertain Branch Profit. Branch does not maintain any books of accounts, but sends weekly returns to Head Office :

	Rs.
Goods received from Head Office at invoice price	1,20,000
Returns of Head Office at invoice price	2,400
Stock at Nagpur Branch on 1.1.2009	12,000
Sales during the year — Cash	40,000
Credit	72,000

Debtors at Nagpur Branch	14,400
Cash received from Debtors	64,000
Discounts allowed to Debtors	1,200
Bad Debts during the year	800
Sales Returns at Nagpur Branch	1,600
Salaries and Wages at Branch	12,000
Rent, Rates and Taxes at Branch	3,600
Office expenses at Nagpur Branch	1,200
Stock at Branch on 31.12.2009 at invoice price	24,000

Ans. 4 (a) **In the books of Ram Limited, Chennai**

Nagpur Branch A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Opening Reserve	
Stock	12,000	25	
Debtors	14,400	12,000 x -----	2,400
To Goods sent to Branch	1,20,000	125	
To Goods sent to Branch	480	By Goods sent to branch	
(Loading on return) (2400 x 25/125)		(loading amount) (120000 x 25/125)	24,000
To Cash A/c		By Goods sent branch	
Salaries and wages	12,000	(returns)	2,400
Rent & Rates and Taxes	3,600	By Cash (Sales)	40,000
Office Expenses	1,200	By Cash (collection From debtors)	64,000
To Closing Stock reserve (24000 x 25/125)	4,800	By Balance c/d	
To Profit & Loss A/c (Balancing Figure)	7,120	Stock	24,000
		Debtors **(WN 1)**	18,800
Total	1,56,800	Total	1,56,800

W.N. (1)

Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	14,400	By Cash	64,000
To Sales	72,000	By Discount	1,200
		By Bad debts	800
		By Sales Return	1,600
		By Balance c/d	18,800
		(Balance fig.)	
	86,400		86,400

Qn 4 (b) From the following information furnished to you by Ayushman Insurance Co. Ltd., you are required to pass Journal entries relating to unexpired risk reserve and show in columnar form "Unexpired Risks Reserve A/c" for 2009. [8 marks]

(a) On 31.12,2008, it had reserve for unexpired risks amounting to Rs. 40 crores. It comprised of Rs. 15 crores in respect of Marine Insurance business, Rs. 20 crores in respect of Fire Insurance business and R.s. 5 crores in respect of Miscellaneous Insurance business.

(b) Ayushman Insurance Co. Ltd. creates reserves 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.

(c) During 2009, the following Business was conducted :

	Marine	Fire	Miscellaneous
Premium collected from : (a) Insured in respect of policies issued	18.00	43.00	12.00
(b) Other insurance companies in			

respect of risks undertaken	7.00	5.00	4.00
Premium paid/payable to other insurance companies on business ceded	6.70	4.30	7.00

Ans. 4. (b) Journal of Ayushman Insurance Co. Ltd.

1997	Particulars	Dr.	Cr.
Dec. 31		Rs.	Rs,
	Marine Reserve(or Premium Account) A/c Dr. To unexpired risks reserve A/c (Being the difference between closing provision of Rs. 18.30 crores (18 + 7 – 6.7) and opening provision of Rs. 20 crores charged to marine revenue account.)	3.30	3.30
	Fire revenue(or Premium Account) A/c Dr. To unexpired risks reserve A/c (Being the difference between closing provision of Rs. 21.85 crores [(43 + 5 – 4.3)/2] and opening provision of Rs. 20 crores charged to fire revenue account.)	1.85	1.85
	Unexpired risks reserve A/c Dr. To miscellaneous revenue(or premium) A/c (Being the excess of opening balance of Rs. 4.5 crores over the required closing balance of Rs. 4.5 crores [(12 + 4 – 7)/2] credited to miscellaneous revenue account)	0.50	0.50

Unexpired risks reserve A/c

1997		marine	fire	Misc.	1997		marine	fire	Misc.
Dec.31	To Revenue (or premium) A/c	--	--	0.50	Jan 1	By balance b/d	15.00	20.00	5.00
					Dec. 31	By Revenue A/c (or premium)	3.30	1.85	--
Dec. 31	To balance c/d	18.30	21.85	4.50					
		18.30	21.85	5.00			18.30	21.85	5.00

Qn 5. (a) Given below is an extract from the trial-balance of T.K. Bank Limited as on 31st December, 2009 : **[8 m]**

Particulars	Debit Rs.	Credit Rs.
Bills discounted	12,64,000	--
Rebate on bills discounted (1.1.2009)	--	8,340
Discount received for the year	--	85,912

An analysis of the bills discounted is shown below :

Amount Rs.	Due date in 2010	Rate of discount (% p. a.)
1,40,000	March 6th	5
4,36,000	March 12th	4.5
2,82,000	March 26th	6
4,06,000	April 6th	4

Show the workings, how the relevant items appear in the Bank's Profit and Loss account as on 31st December, 2009 and in Bank's Balance Sheet as on 31st December, 2009.

Ans. 5 (a) **Calculation of Bill discounting**

Date of Maturity	**Balance Sheet**	**No. of days after balance sheet date**	**Amount**	**Rate of discount**	**Total amount of discount**
6.3.2010	31.12.2009	65 days	1,40,000	5%	1246.57
12.3.2010	31.12.2009	71 days	4,36,000	4.5%	3816.49
26.3.2010	31.12.2009	85 days	2,82,000	6%	3940.27
6.4.2010	31.12.2009	96 days	4,06,000	4%	4271.34
					13,274.64 Or 13275

Extracts of Balance Sheet of T.K. Bank Ltd.

Particulars	**Schedule**	**Amount**
Capital and liabilities		
Other liabilities and Provisions	5	13,275

Extracts of Profit & Loss Statement of T.K. Bank Ltd.

Particulars	Schedule	Amount
Interest Earned	13	80,977

Working Note :

Opening Rebate on bills discounted	8,340
Add : Discount received for the year	85,912
Less : Closing Rebate on bills discounted	13,275
Interest Earned	80,977

Qn. 5 (b) From the following Trial Balance of PQ Ltd. on 31.12.2009, prepare liquidators Final statement of account : **[8 marks]**

	Rs.	Rs.
9% Preference share capital (1250 Pref. shares @ 100 each fully paid)	--	1,25,000
Equity share capital :		
2,000 Equity shares @ 100 each fully paid	--	2,00,000
2,000 Equity shares @ 100 each Rs. 5U paid up	--	1,00,000
Plant	3,00,000	--
Stock-in-trade	3,60,000	--
Sundry Debtors	85,000	--
Sundry Creditors	--	2,21,000
Bank balance	1,20,000	--
Preliminary expenses	6,000	--
6% Mortgage loan	--	2,30,000
Outstanding liabilities for expenses	--	25,000
Profit and Loss A/c (Trading loss for the year 2009)	30,000	--
	9,01,000	9,01,000

Following points should be kept in mind :

(i) On 21 January, 2010 the liquidator of PQ Ltd. sold plant for Rs. 2.95,000 and stock in trade at 10% less than the book value. He realised 80% of' Sundry debtors and incurred cost of collection of Rs. 1,850 (remaining debtors are to be treated as bad).

(ii) The loan mortagage was discharged as 31st January. 2010 alongwith interest for 6 months. Creditors were discharged subject to *5%* discount. Out standing expenses paid at 20%. less.

(iii) Preference share dividend is due for one year and paid with final payment.

(iv) Liquidation expenses incurred are Rs. 1,800 and liquidators . remuneration is settled at 4% on disbursement, to members, subject to minimum of Rs. 10,000.

Ans. 5 (b) **Liquidator's Final Statement of Account on 31.12.2009**

Particulars	Amount	Particulars		Amount
To Asset realized				
Plant	2,95,000	By Liquidation Expenses		1,800
Stock (360000 x 90%)	3,24,000	By Liquidators remuneration (Note 2)		10,000
Debtors		By 6% mortgage loan	2,30,000	
(85000x 80%) 68,000		Add : interest July-Dec 09	6,900	
Less: Realisation Exp. 1,850	66,150	: interest Jan 2010 **(Note 1)**	1,150	2,38,050
Bank Balance	1,20,000	By Creditors @ 95%		2,09,950
		By Outstanding expenses (paid 20% less)		20,000
		By 9% preference share Capital	1,25,000	
		Add : Dividend for one year	11,250	1,36,250

		By Equity Share Capital **(Note 2)**	1,89,100
Total =	8,05,150	Total =	8,05,150

Note 1 It is assumed that due date of interest on mortgage loan is 30th june & 31st dec each year. Therefore interest for the month of Jan 2010 shall also paid.

Note 2

	Realization of Assets	=	8,05,150
Less :	Payment made before Equity Share Capital & before remuneration to liquidator	=	6,06,050
	Balance left for Equity Share Holders & liquidator remuneration	=	1,99,100
Less :	Liquidator remuneration [199100 x 4/104 = Rs. 7658 or Rs. 10000 which ever is higher]	=	10,000
	Balance left for Equity Share Holders	=	1,89,100
Less :	2000 equity share of Rs.100 each fully paid up	=	2,00,000
	2000 " " " Rs.100 each Rs. 50 paid up	=	1,00,000
	Deficit	=	(1,10,900)

Equivalent shares = 2,000 (fully paid) + 2000 (Rs. 50 paid up) or 1000 (Rs.100 paid up)
= 3,000

Therefore, deficit per share = $\frac{1,10,900}{3,000}$ = 36.96

Amount to be paid to equity shareholders : -

2000 equity share of Rs.100 each fully paid	=	2000 (100 – 36.96)
	=	Rs. 1,26,067
Equivalent 1000 share of Rs.100 each fully paid	=	1000 (100 – 36.96)
	=	Rs. 63,033

Qn 6. Answer the following :

(a) Chaitanya Limited issues 40,000 shares. Issue is underwritten by A, B and 4 *C* in the ratio of 5:3:2 respectively. Unmarked applications totalled 2000 whereas marked applications are as follows : [4 marks]

A	-	16,000
B	-	5,700
C	-	8,300

Calculate the Net liability of each one of the underwriters.

(b) How will you disclose the following Ledger balances in the Final accounts of DVD bank : [4 marks]

	Rs. in Lacs
Current accounts	700
Saving accounts	500
Fixed deposits	700
Cash credits	600
Term Loans	500
Bills discounted & purchased	800

Additional information :
(i) Included in the Current accounts ledger are accounts overdrawn to the extent of Rs. 250 lacs.
(ii) One of the Cash Credit account of Rs. 10 lacs (including interest Rs.1 lacs) is doubtful.
(iii) 60% of term loans are secured by government guarantees, 20% of cash credits are unsecured, other portion is secured by tangible assets.

(c) B & P Ltd. availed a lease from N&L Ltd. The conditions of the lease terms are as under : [4 marks]
(i) Lease period is 3 years, in the beginning of the year 2009, for equipment costing Rs. 10,00,000 and has an expected useful life of 5 years.
(ii) The Fair market value is also Rs. 10,00,000.
(iii) The property reverts back to the lessor on termination of the lease.
(iv) The unguaranteed value is estimated at Rs. 1,00,000 at the end of the year 2011.
(v) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%
The present value of Re. 1 due at the end of 3rd year at 10% rate of interest is Re. 0.7513.
The present value of annuity of Re. 1 due at the end of 3rd year at 10% IRR is Rs. 2.4868.
State whether the lease constitute finance lease and also calculate unearned Finance income.

(d) ABC Electricity Company laid down a main at a cost of Rs. 24,00,000. Some years later the company replaced by improving the plant 2/3 portion of the main at a cost of Rs. 40,00,000. The cost of material and labour having gone up by 25%. Sale of old material realised Rs. 95.000. Old material value Rs. 1,05,000 were used in renewal (included in above).

Calculate the amount to be Capitalised and show the Journal entries for recording the transaction. [4 marks]

Ans. 6 (a) Statement showing net liability of underwriters : -

Particulars	A	B	C
Gross Liability (in the ratio of 5:3:2)	20,000	12,000	8,000
Less : firm application	NIL	NIL	NIL
	20,000	12,000	8,000
Less : Marked application	16,000	5,700	8,300
	4,000	6,300	(300)
Less : Unmarked application	1,000	600	400
(in the ratio of 5:3:2)	3,000	5,700	(700)
Less : Surplus of C to be distributed in the ratio of gross liability	438	262	(+) 700
Net Liability	2,562	5,438	NIL

Ans. 6 (b) Balance Sheet of DVD Bank as on 31.03

Liabilities	Schedule	Amount (in Lacs)
Capital	1	Nil
Reserve & Surplus	2	Nil
Deposits	3	2150
Borrowings	4	Nil
Other liabilities & premium	5	Nil
Total	=	2150

Assets		
Cash in hand and balance with RBI	6	NIL
Balance with bank and money at call on short notice	7	NIL
Investments	8	NIL
Advances	9	2150
Fixed Assets	10	NIL
Other Assets	11	NIL
Total	=	2150
Contingent Liabilities	12	NIL
Bills for collection		NIL

Schedule 3 : -

Current account (700 + 250)	950
Saving account	500
Fixed deposits	700
	2150

Schedule 9 : -

A. Cash credit (600 + 250)	850
Term Loan	500
Bills discounted & purchased	800

		2150
B.	Second by Tangible Assets (balance)	1680
	Secured by govt. securities (500 x 60%)	300
	Unsecured (850 x 20%)	170

Note : Interest on doubtful cash credit will be deducted from Schedule 13 and provision for bad debts shall be created on doubtful cash credit of Rs. 10 lacs.

Ans. 6 (c) (i) In following situations, the lease transactions are called finance lease:

1. The lessee will get the ownership of leased asset at the end of the lease term.
2. The lessee has an option to buy the leased asset at the end of term at price, which is lower than its expected fair value on the date on which option will be exercised.
3. The lease term covers the major part of the life of asset.
4. At the beginning of lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset.
5. The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

Since the cost of equipment is Rs. 10,00,000 and it will be recovered in 3 equal annual payments at the end of each year. Therefore it fulfils condition 4 above. In addition to that condition no. 3 is also fulfilled. Hence the above lease is a **finance lease.**

<u>Calculation of Annual lease Payment</u>

Cost of equipment	10,00,000
Unguaranteed residual value	1,00,000
P.v of residual value for 3 years (@ 1,00,000 x .7513)	75,130
Fair market value	10,00,000
Annual lease payment $\left(\dfrac{10,00,000}{2.4868}\right)$	4,02,123

(ii) Unearned Finance income

Total Lease Payment (402123 x 2.4868)	10,00,000
Add : Residual value	1,00,000
Gross investment	11,00,000
Less : P. v of investment (10,00,000 + 75130)	10,75,130
Unearned finance income	24,870

Ans. 6 (d)

W.N. (1) Calculation of Total Cost of New Plant

Total cost of new plant		40,00,000

W.N. (2) Calculation of current cost of old plant

Cost of old plant 24,00,000 x 2/3	= 16,00,000	
Add : Increase in cost of material & labour (16,00,000 x 25%)	= 4,00,000	20,00,000

W.N. (3) Amount to be transferred to revenue account

Current cost of old plant **(WN 2)**	20,00,000
Less : Old Material sold	95,000
Less : Old Material used	1,05,000
	18,00,000

Solution (i) : Amount to be capitaliged

Cost of new plant	40,00,000
Less : Current Cost of old plant **(WN 2)**	20,00,000
	20,00,000

Solution (ii) : Journal Entries : -

Date	Particulars	LF	Amount	Amount
	Cash cost of new plant			
	New plant A/c - Dr.		18,95,000	
	Replacement A/c – Dr.		20,00,000	
	To Cash A/c			38,95,000
	(Being Csot of new plant partly capitalized excluding cost of old material used Rs. 105000)			
	Old material used			
	New plant A/c - Dr.		1,05,000	
	To Replacement A/c			1,05,000
	(Being Capitalisation of old material used in the new plant)			
	Old material sold			
	Bank A/c - Dr.		95,000	
	To Replacement A/c			95,000
	(Being proceeds realized on sale of old material transferred to Revenue Account)			
	Balance of Replacement A/c Transferred to Revenue A/c			
	Revenue A/c - Dr.		18,00,000	
	To Replacement A/c			18,00,000
	(Being balance in Replacement Account transferred to Revenue Account)			