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Solved Ans. Accounts_5 Ipcc_Nov.10

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C.A. CPT, PCC, IPCC & FINAL

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(Disclaimer : Questions asked in the exam may have wrong/inadequate information and/or ambiguous language. In that case the answers provided by institute may differ from this Ideal Answers. If you find any errors, please email the same.)

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Qn. 1. Answer the following questions : **[4 x 5 = 20 marks]**

(i) Rama Limited issued 8% Debentures of Rs. 3,00,000 in earlier year on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase its own debentures in the open market for cancellation thereof. The following purchases were made during the financial year 2009-10 and cancellation made on 31st March 2010 :

(a) On 1st April Rs.50,000 nominal value purchased for Rs. 49,450, ex-interest.
(b) On 1st September Rs.30,000 nominal value purchased for Rs.30,250 cum interest.

Show the Journal Entries (without narrations) for the transactions held in the year 2009-10.

Ans. 1 (i)

(1) 1.4.09	Investment in own debenture a/c ---------------	Dr.	49450	
	Interest on own debenture a/c ---------------	Dr.	NIL	
	To Bank			49450
(2) 1.9.09	Investment in own debenture a/c ----------	Dr.	29250	
	Interest on own debenture a/c ----------	Dr.	1000	
	To Bank			20250

(<u>Calculation of cost</u>)

Purchase cost 30,250

(-) Interest

$$\left(30{,}000 \times 8\% \times \frac{5}{12}\right) \quad \underline{1{,}000}$$

29,250

(3) 30.9.09	Debenture Interest a/c ---------------	Dr.	12000	
	To Debenture holder (Intt.) a/c			8800
	To Interest on own debenture a/c			3200

(i) Interest own debenture $= 80{,}000 \times 8\% \times \frac{1}{2} = 3200/-$

(2) Debenture holder Interest = 12000 – 3200 = 8800/-

(4) 30.9.09	Debenture holder (Interest) a/c ------------	Dr.	8800	
	To Bank			8800
(5) 31.3.10	Debenture Interest a/c --------------	Dr.	12000	
	To Debenture holder (Interest) a/c			8800
	To Interest on own debenture			3200
31.3.01	Debenture holder (Interest) a/c --------	Dr.	8800	
	To Bank			8800

(ii) From the following information of details of advances of Zenith Bank Ltd., calculate the amount of provisions to be made in Profit and Loss Account for the year ended on 31 -3-2010 :

Assets Classification	**Rs. (in Lakh)**
Standard	10,000
Sub-Standard	6,400
Doubtful:	
for one year	3,200
for two years	1,800
for three years	900
for more than three years	1,100
Loss Assets	3,000

Ans. 1 (ii) **(Rs. in lakh)**

Particulars	**Amount**	**Provision**	**Amount**
Standard	10,000	0.40%	40
Sub-standard	6,400	10%	640
Doubtful :			
For one year	3,200	20%	640
For two years	1,800	30%	540
For three years	900	30%	270
For more than three years	1,100	100%	1,100
Loss assets	3,000	100%	3,000
			6,230

(iii) While preparing its final accounts for the year ended 31st March 2010, a company made a provision for bad-debts @ 4% of its total debtors (as per trend follows from the previous years). In the first week of March 2010 a debtor for Rs. 3,00,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April 2010 the debtor become a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March 2010.

Ans. 1 (iii) As per AS-4 "Events occurring after the Balance Sheet date" but before the date of finalization of the balance sheet,, the circumstances of which were existing on the balance sheet date must be adjusted in accounts. In the instant case, circumstances were existing on the balance sheet date and event of April (declaration of insolvency) only confirm the circumstances existing on the date of balance sheet i.e. 31-3-2010

Hence company should provide for full loss arising out of insolvency of the debtors for the year ended 31-3-2010.

(iv) "Recognizing the need to harmonize the diverse accounting policies and practices, accounting standards are framed." Give examples of areas in which different accounting policies may be adopted by enterprise.

Ans. 1 (iv) Accounting policies refer to specific accounting principles and the method of applying those principles adopted by the enterprise in preparation and presentation of the financial statements. At the time of preparation of financial statements (i.e. Balance Sheet, Profit and Loss Account), there are many areas, which have more than one method of accounting treatment such as:

- **Methods of Depreciation :**
  - Straight Line Method
  - WDV Method
- **Conversion or translation of foreign currency item :**
  - Average Rate
  - TT buying rate
- **Valuation of inventories :**
  - FIFO
  - Weighted Average
  - Standard Cost
  - Retail Method
- **Valuation of Investment**
- **Treatment of Retirement Benefits**
- **Valuation of Fixed Assets**
- **Treatment of Contingent Liabilities**

There are many areas other than aforesaid, where more than one method can be followed for accounting which methods have been followed in preparation of Balance Sheet, profit and loss account is disclosed as accounting policies. Hence accounting policies contains the information about the method adopted for the preparation of financial statement. Statements of accounting policies are part of financial statement.

Examples of Accounting Policies

Depreciation - Depreciation on fixed assets has been provided for on straight-line method at the rates prescribed under Schedule XIV to the Companies Act, 1956 as amended. Depreciation on revalued amount of fixed assets is adjusted by transferring the equivalent amount from revaluation reserve.

Inventories

- Inventories are valued at lower of cost and net realizable value. The cost comprises of cost of purchase, cost of conversion and other cost including appropriate production overhead incurred in bringing such inventories to their present location.
- Finished goods and raw materials are valued at cost or net realisable value, whichever islpwer. For raw materials the cost is determined on FIFO method.

Qn. 2. A, B, C and D are sharing profits and losses in the ratio 5: 5: 4: 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March 2010 when their Balance Sheet was as under :

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Capital		Building	1,20,000
A	90,000	Stock	85,500
B	90,000	Investments	29,000
C	-	Debtors	42,000
D	35,000	Cash	14,500
General reserve	24,000	C	15,000
Trade creditors	47,000		
Bills payable	20,000		
	3,06,000		**3,06,000**

Following information is given to you :

(i) A cheque for Rs. 4,300 received from debtor was not recorded in the books and was misappropriated by C.

(ii) Investments costing Rs.5,400 were sold by C at Rs.7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.

(iii) A creditor agreed to take over investments of the book value of Rs.5,400 at Rs.8,400. The rest of the creditors were paid off at a discount of 2%.

(iv) The other assets realised as follows :

Building	105% of book value
Stock	Rs.78,000
Investments	The rest of investments were sold at a profit of Rs.4,800
Debtors	The rest of the debtors were realised at a discount of 12%

(v) The bills payable were settled at a discount of Rs. 400.

(vi) The expenses of dissolution amounted to Rs. 4,900

(vii) It was found out that realisation from C's private assets would only be Rs.4,000.

Prepare the necessary Ledger Accounts. **[16 marks]**

Ans. 2

Realisation A/c

To Building	1,20,000	By Creditors	47,000
To Stock A/c	85,500	By Bills payable	20,000
To Investment (29,000 – 5,400)	23,600	By Profit on Sale of investment	2,500
To Debtors (42,000 – 4,300)	37,700		
To Cash		By Cash	
Creditors	37,828	Building	1,26,000
Bills Payable	19,600	Stock	78,000
Dissolution Expenses	4,900	Investment	23,000
To A 171		Debtors	33,176
B 171			
C 137			
D 69	548		
	3,29,676		3,29,676

Partner's Capital A/c

	A	B	C	D		A	B	C	D
To Balance B/d	-	-	15000	-	By Bal. b/d	90000	90000	-	3500
To Debtors A/c	-	-	4300	-	By General Reserve	7500	7500	6000	3000

To Investment A/c	-	-	5400	-	By Cash	--	-	4000	-
To Realisation A/c	-	-	2500	-	By Realisation	171	171	137	69
To C's Cap. A/c	7140	7140	-	2783	By A's Cap. A/c			7140	
To Cash	90531	90531	-	35286	By B's Cap. A/c			7140	
					By D's Cap. A/c			2783	
	97671	97671	27200	38069		97671	97671	27200	38069

Cash A/c

To Balance b/d	14,500	By Realisation A/c	
To Realisation A/c		Creditors A/c	37,828
Building A/c	1,26,000	Bills payable A/c	19,600
Stock A/c	78,000	Dissolution Expenses A/c	4,900
Stock A/c	23,000	By A's Capital A/c	90,531
Investment A/c	33,176	By B's Capital A/c	90,531
Debtors A/c	33,176	By D's Capital A/c	35,286
To C's capital A/c	4,000		
	2,78,676		2,78,678

Qn. 3. Extra Ltd. furnishes you with the following Balance Sheet as on 31st March, 2010 : **[16 marks]**

(Rs. in lakh)

Liabilities	Amount	Assets	Amount
Share Capital		Fixed assets less depreciation	50
Equity Shares of Rs.10 each fully paid	100	Investments at cost	120
9% Redeemable Preference Shares of Rs.100 each fully paid	20	Current assets	142
Capital Reserves	8		
Revenue Reserves	50		
Share Premium	60		
10% Debentures	4		
Current Liabilities	70		
	312		**312**

(i) The company redeemed the preference shares at a premium of 10% on 1st April 2010.

(ii) It also bought back 3 lakhs equity shares of Rs. 10 each at Rs. 30 per share.
The payment for the above were made out of huge bank balances, which appeared as a part of the current assets.

(iii) Included in it's investment were "investments in own debentures" costing Rs.2 lakhs (face value Rs.2.20 lakhs). These debentures were cancelled on 1st April 2010.

(iv) The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at Rs.20 when the market price was Rs.30. (This was included under Current liabilities). On 1.04.2010 employees exercised their options for 50,000 shares.

(v) Pass the Journal Entries to record the above.

(vi) Prepare Balance Sheet as at 01.04.2010.

Ans. 3 **Journal Entries in Books of Extra Ltd.**

(i)	9% Preference Shares A/c -------------------------	Dr.	20	
	Premium on Redemption ------------------------	Dr.	2	
	To Preference Shareholders A/c			22
	(Being Amount payable to preference shareholder made due)			
(ii)	Securities Premium A/c ----------------------	Dr.	2	
	To Premium on redemption A/c			2
	(Being premium on redemption written off)			
(iii)	Revenue Reserves A/c --------------------	Dr.	20	

	To Capital Redemption Reserve			20
	(Being CRR created out of revenue reserve)			
(iv)	Preference Shareholders A/c -----------------	Dr.	22	
	To Current Assets A/c			22
	(Being amount paid to preference shareholders)			
(v)	Equity Share Capital A/c ---------------	Dr.	30	
	Premium on buy back of share --------------	Dr.	60	
	To Equity Shareholders A/c			90
	(Being Equity Shares are bought back @ Rs.30 per share)			
(vi)	Share Premium a/c --------------	Dr.	60	
	To Premium on buy back of share a/c			60
	(Being premium on buy back of share wet ten off)			
(vii)	Revenue Reserves a/c ---------------	Dr.	30	
	To Capital Redemption Reserve			30
	(Being C.R.R created out of revenue reserve)			
(viii)	Equity shareholder A/c --------------	Dr.	90	
	To Current Assets A/c			90
	(Being Equity Shareholders paid off)			
(ix)	10% Debenture A/c -------------------	Dr.	2.20	
	To Investment in own debenture A/c			2.00
	To Capital Reserve A/c			0.20
	(Being Investment in own debentures cancelled)			
(x)	Cash A/c -------------------	Dr.	10	
	Current liabilities A/c -------------------	Dr.	5	
	To Equity Share Capital A/c			5
	To Securities premium a/c			10
	(Being employee exercised options for 50,000 shares)			

Balance Sheet as on 1.04.2010

Equity Shares of Rs.10 each fully paid (100 – 30 + 5)	75	Fixed Assets less depreciation	50
Capital Reserves (8 + 0.20)	8.20	Investment at cost (120 – 2)	118
Capital Redemption Reserve	50	Current Assets	
Securities Premium (60 – 2 – 60 + 10)	8	(142 – 22 – 90 + 10)	40
10% Debentures (4 – 2.20)	1.80		
Current Liabilities (70 – 5)	65		
	208		208

Qn 4. (a) Department R sells goods to Department S at a profit of 25% on cost and Department T at 10% profit on cost. Department S sells goods to R and T at a profit of 15% and 20% on sales respectively. Department T charges 20% and 25% profit on cost to Department R and S respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Manager's commission, but before adjustment of unrealised profit are as under :

		Rs.
Department	R	54,000
Department	S	40,500
Department	T	27,000

Stock lying at different departments at the end of the year are as under:

	Deptt. R Rs.	**Deptt. S** Rs.	**Deptt. T** Rs.
Transfer from Department R	-	22,500	16,500
Transfer from Department S	21,000	-	18,000
Transfer from Department T	9,000	7,500	-

Find out the correct departmental profits after charging Manager's commission. **[8 marks]**

Ans. 4 (a) **Calculation of Correct Department Profit**

	R	S	T
Profit after charging managerial commission but before adjustment of unrealized profit	54,000	40,500	27,000
Add : Manager Commission	6,000 (54,000 / 90 x 10)	4,500 (40,500 / 90 x 10)	3,000 (27000 / 90 x 10)
	60,000	45,000	30,000
Less			
Unrealised Profit			
From R		(4500) (22500 x 25/125)	(1500) (16500 x 10/110)
From S	(31500) (21000 x 15%)		(3600) (18000 x 20%)
From T	(1500) (9000 x 20/120)	(1500) (7500 x 25/125)	
	55350	39000	24900
Less : Manager Commission 10% on Profit	5535	3900	2490
Correct Profit	49815	35100	22410

(b) From the following information of Reliable Marine Insurance Ltd. for the year ending 31st March 2010 find out the

(i) Net premiums earned

(ii) Net claims incurred **[8 marks]**

	(Rs.) Direct Business	(Rs.) Reinsurance
Premium :		
Received	88,00,000	7,52,000
Receivable - 01.04.2009	4,39,000	36,000
Receivable-31.03.2010	3,77,000	32,000
Paid	6,09,000	
Payable-01.04.2009		27,000
Payable-31.03.2010		18,000
Claims :		
Paid	69,00,000	5,54,000
Payable-01.04.2009	89,000	15,000
Payable-31.03.2010	95,000	12,000
Received		2,01,000
Receivable - 01.04.2009		40,000
Receivable - 31.03.2010		38,000

Ans. 4 (b) **Computation of Net premium received**

Particulars	Direct Business	Re-insurance
Premium Received	88,00,000	7,52,000
(-) Opening Premium receivable	(4,39,000)	(36,000)
(+) Closing premium receivable	3,77,000	32,000
Premium received (a)	87,38,000	7,48,000
Premium paid	--	6,09,000

(-) Opening premium payable	--	(27,000)
(+) Closing premium payable	--	18,000
Premium paid (b)	--	6,00,000
Net premium received (a) – (b)	87,38,000	1,48,000

Computation of Net Claims incurred

Particulars	Direct Business	Re-insurance
Claims paid	69,00,000	5,54,000
(-) Opening Claims Payable	(89,000)	(15,000)
(+) Closing Claims Payable Claims Paid	95,000	12,000
(a)	69,06,000	5,51,000
Claims received	--	2,01,000
(-) Opening claims receivable		(40,000)
(+) Closing claims receivable		38,000
Claims Received (b)	--	1,99,000
Net Claims incurred (a) – (b)	69,06,000	3,52,000

Qn. 5. Following is the Balance Sheet of Y Ltd., as at 31st March 2010 : **[16 marks]**

Liabilities	Rs.	Assets	Rs.
Share Capital		**Fixed Assets**	
Issued & paid up : 2,50,000 equity share of Rs. 10 each, Rs. 8 per share paid up	20,00,000	Goodwill Building Plant and machinery	8,00,000 7,00,000 13,00,000
1,00,000 (10%) pref. shares of Rs. 10 each fully paid up	10,00,000	**Current Assets** Stock	7,00,000
Reserves & Surplus		Sundry debtors	9,00,000
General reserve Profit & Loss A/c	6,00,000 8,00,000	Bank Balance	6,60,000
Current Liabilities		**Misc. Exp.**	
Creditors Workmen's profit sharing fund	4,00,000 3,00,000	Preliminary Expense	40,000
	51,00,000		**51,00,000**

X Ltd. decided to absorb the business of Y Ltd., at the respective book value of assets and trade liabilities except Building which was valued at Rs.12,00,000 and Plant & Machinery at Rs.10,00,000.

The purchase consideration was payable as follows :

(i) Payment of liquidation expenses Rs.5,000 and workmen's profit sharing fund at 10% premium;

(ii) Issue of equity share of Rs.10 each fully paid at Rs.11 per share for every pref. share and every equity share of Y Ltd., and a payment of Rs.4 per equity share in cash.

Calculate the purchase consideration, show the necessary ledger accounts in the books of Y Ltd., and opening Journal Entries in the books of X Ltd.

Ans. 5 **Computation of Purchase Consideration**

Equity Shares of X Ltd. in liew of Equity shares of Y Ltd.	=	27,50,000 (2,50,000 shares x Rs.11)
Equity Shares of X Ltd. in liew of Preference Shares of Y Ltd.	=	11,00,000 (1,00,000 Shares x Rs.11)
Cash	=	10,00,000

	(2,50,000 Shares x Rs.4)

Purchase Consideration	46,50,000

In Books of Y Ltd.

Realisation A/c

To Goodwill	8,00,000	By Creditors	4,00,000
To Building	7,00,000	By Working profit sharing fund	3,00,000
To Plant & Machinery	13,00,000	By X Ltd. (Purchase consideration)	48,50,000
To Stock	7,00,000		
To Sundry debtors	9,00,000		
To Bank Balance	6,60,000		
To Premium on redemption of preference shares	1,00,000		
To Equity Shares capital	3,90,000		
	55,50,000		55,50,000

10% Preference Share Capital A/c

To Equity Shares of X Ltd.	11,00,000	By B/d	10,00,000
		By Realisation A/c	1,00,000
	11,00,000		11,00,000

Equity Share Capital A/c

To Preliminary Expense	40,000	By Balance b/d	20,00,000
To Equity Shares in X Ltd.	27,50,000	By General Reserve	6,00,000
To Cash	10,00,000	By Profit & Loss A/c	8,00,000
		By Realisation A/c	3,90,000
	39,90,000		37,90,000

In books of X Ltd.

		Dr.	Cr.
Building A/c -----------------	Dr.	12,00,000	
Plant & Machinery A/c ---------	Dr.	10,00,000	
Stock A/c ---------	Dr.	7,00,000	
Sundry Debtors A/c ----------	Dr.	9,00,000	
Bank Balance A/c ----------	Dr.	6,60,000	
Goodwill A/c -------------	Dr.	3,20,000	
(Balance figure)			
To Workmen's profit Sharing fund A/c			3,30,000
To Creditors A/c			4,00,000
To Liquidator of Y Ltd. A/c			48,50,000
(Being Assets & Liabilities of Y Ltd. taken over)			
Goodwill A/c ----------	Dr.	5,000	
To Cash A/c			5,000
(Being liquidation Expenses paid)			
Liquidator of Y Ltd. A/c ------	Dr.	48,50,000	
To Equity Share Capital A/c			35,00,000
To Securities premium A/c			3,50,000
To Cash A/c			10,00,000
(Being consideration due to Y Ltd. satisfied by issue of Equity Shares and payment of cash)			

Qn. 6. (a) A Commercial Bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted assets ratio. **[8 marks]**

	Rs. (in crores)
Equity Share Capital	500.00
Statutory Reserve	270.00
Capital Reserve (of which Rs.16 crores were due to revaluation of assets and the balance due to sale of capital asset)	78.00

Assets :	
Cash balance with RBI	10.00
Balance with other banks	18.00
Other investments	36.00
Loans and advances :	
(i) Guaranteed by the Government	16.50
(ii) Others	5,675.00
Premises, furniture and fixtures	78.00
Off-Balance Sheet items :	
(i) Guarantee and other obligations	800.00
(ii) Acceptances, endorsements and letter of credit	4,800.00

Ans. (a) Tier I - Capital

			(Rs. in Crores)
Share Capital			500.00
Statutory Reserve			270.00
Capital Reserve (78.00 – 16.00)			62.00
		(a)	832.00
<u>Tier II – Capital</u>			
Capital Reserve (Due to Revaluation of Assets)	16.00		
Less : 55% discount	8.80	(b)	7.20
Capital fund (a) + (b)			839.20

<u>Calculation of Risk Adjusted Assets</u>

Assets	Amounts (Rs. in crores)	Percentage weight	Risk weight assets
Cash Balance with RBI	10.00	0	--
Balance with other banks	18.00	20	3.6
<u>Loans & Advances</u>			
(i) Guaranteed by govt.	16.50	0	--
(ii) Others	5,675.00	100	5,675.00
Premises, furniture & fixtures	78.00	100	78.00
			5756.60
Off balance sheet items			
(i) Guarantee and other obligations	800.00	100	800.00
(ii) Acceptances, endorsement and letters of credit	4800.00	100	4800.00
			11,356.60

Capital adequacy ratio
Or
Risk weighted assets ratio $= \dfrac{839.20}{11,356.50} \times 100$

$= 7.39\ \%$

(b) The Super Electricity Company maintains accounts under the Double Accounts System. It decides to replace one of its old plant with a technologically advanced plant with a larger capacity. The plant when installed in 2000 cost the company Rs. 90,00,000, the components of materials, labour and overheads being in the ratio 5:3:2.

It is ascertained that the costs of materials has gone up by 200% and the cost of labour has gone up by 300%. The proportion of material, labour and overheads has changed to 10:9:6.

The cost of the new plant is Rs. 2,80,00,000 and in addition, goods worth Rs. 12,60,000 have been used in the construction of the new plant. The old plant was scrapped and sold for Rs.19,00,000.

Find out the amount to be capitalised and also the amount to be charged to revenue. Draw the necessary Ledger Accounts. **[8 marks]**

Ans. 6 (b) Old cost = Rs. 90,000/-

Ratio of material, labour & overheads are 5 : 3 : 2

∴ Material = 45,00,000
Labour = 27,00,000
Overheads = 18,00,000

<u>Calculation of Current cost</u>

Material	=	45,00,000	
Add : Increase by 200%	=	90,00,000	1,35,000
Labour	=	27,00,000	
Add : Increase by 300%	=	81,00,000	1,08,00,000
Overheads			76,73,684
$\left(\frac{1352 + 108 \text{ loan}}{19} \times 6\right)$	=		3,19,73,684

Calculation of Total new cost

Cash cost	2,80,00,000
Old materials used	12,60,000
	2,92,60,000

Amount Charged to Revenue

Current cost	3,19,73,684
(-) Old material used	12,60,000
(-) Old material sold	19,00,000
	2,88,13,684

Plant A/c

To Balance b/d	90,00,000	By Replacement	39,73,784
To Replacement	12,60,000	By Balance c/d	62,86,316
	102,60,000		102,60,000

Replacement A/c

To Bank	2,80,00,000	By Bank	19,00,000
To Plant	39,73,684	By Plant	12,60,000
		By Revenue	2,88,13,684
	3,19,73,684		3,19,73,684

Note : In the present case, current cost of old plant exceeds total cost of new plant which seems to be incorrect. As per our opinion there is some mistake in the question itself. But we have solved the question as per information provided in the question.

Qn. 7. Answer any **four** of the followings : **[4 x 4 = 16 marks]**

(a) Following is the information of the Jammu branch of Best Ltd., New Delhi for the year ending 31st March 2010 from the following :

(1) Goods are invoiced to the branch at cost plus 20%.

(2) The sale price is cost plus 50%.

(3) Other informations:

	Rs.
Stock as on 01-04-2009	2,20,000
Goods sent during the year	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch	45,000

Ascertain (i) the profit earned by the branch during the year (ii) branch stock reserve in respect of unrealized profit.

Branch A/c

To Opening Stock	2,20,000	By Sales	12,00,000
To Goods sent to branch A/c	11,00,000	By Opening Stock reserve $\left(220000 \times \frac{20}{120}\right)$	36,667
To Branch expenses (given)	45,000	By Goods sent to branch A/c $\left(\text{Loading i.e. } 11,00,000 \times \frac{20}{120}\right)$	183333
To Closing stock reserve $\left(360000 \times \frac{20}{120}\right)$	60,000		
To Net profit c/d	3,55,000	By Closing stock (W.N. 1)	3,60,000
	17,80,000		17,80,000

Working Note 1) Computation of Closing Stock at branch at invoice price

Opening stock at invoice price	2,20,000
Add : Goods sent to branch at invoice price	11,00,000
Less : Invoice price of Goods Sold	9,60,000
$\left(\left(12{,}00{,}000 \times \frac{100}{150}\right) + 20\%\right)$	-------------
Closing stock at branch at invoice price	3,60,000

Hence, Net Profit made by branch during the year = Rs. 3,55,000 /-

(ii) Closing stock at branch at invoice price (W.N. 1) = 3,60,000

Therefore,

Branch stock reserve is respect of Unrealised profit

$$= 3{,}60{,}000 \times \frac{20}{120} = 60{,}000$$

(b) Ram Ltd. had 12,00,000 equity shares on April, 1, 2009. The company earned a profit of Rs. 30,00,000 during the year 2009-10. The average fair value per share during 2009-10 was Rs.25. The company has given share option to its employees of 2,00,000 equity shares at option price of Rs.15. Calculate basic E.P.S. and diluted E.P.S.

Ans. 7 (b)

Net profit for the year 2009	Rs. 30,00,000
Weighted average number of shares outstanding during year 2009	12,00,000 Shares
Basic Earning per share $\left(\frac{30{,}00{,}000}{12{,}00{,}000}\right)$	Rs. 2.5
Diluted Earning per share --	
Number of shares under options	2,00,000 shares
Number of shares that would have been issued at fair value $\left(2{,}00{,}000 \times \frac{15}{25}\right)$	(1,20,000 shares)
Weighted number of Equity shares	12,80,000 shares
Adjusted earning	Rs. 30,00,000
Diluted Earnings per share $\left(\frac{\text{Rs. } 30{,}00{,}000}{12{,}80{,}000}\right)$	Rs. 2,34

(c) On 1st April 2009 Amazing Construction Ltd. obtained a loan of Rs.32 crores to be utilized as under :

(i) Construction of sealink across two cities : (work was held up totally for a month during the year due to high water levels)	: Rs. 25 crores
(ii) Purchase of equipments and machineries	: Rs. 3 crores
(iii) Working capital	: Rs. 2 crores
(iv) Purchase of vehicles	: Rs. 50,00,000
(v) Advance for tools/cranes etc.	: Rs. 50,00,000
(vi) Purchase of technical know-how	: Rs. 1 crores
(vii) Total interest charged by the bank for the year ending 31st March 2010 :	: Rs. 80,00,000

Show the treatment of interest by Amazing Construction Ltd.

Ans. 7 (c) As per AS-16 borrowing cost (interest) should be capitalised if borrowing cost is directly attributable to the acquisition, construction or production of 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.32 crores borrowed as loan was utilized for –

Construction of equipments and machineries	Rs. 25 crores
Purchase of equipments and machineries	Rs. 3 crores
Working capital	Rs. 2 crores
Advances for tools / cranes etc.	Rs. 0.50 crores
Purchase of vehicles	Rs. 0.50 crores
Purchase of technical know-how	Rs. 1 crores
	32 crores

Out of these 6 payments only construction of a sealink across two cities of Rs.25 crores is a qualifying asset as per AS-16, other five payments are not for the qualifying asset. Therefore, borrowing cost attributable to the construction of the sealink should only be capitalized which will be equal to Rs.80 lakh x $\frac{25 \text{ cr.}}{32 \text{ cr.}}$

= Rs. 62.5 lakhs

The balance of Rs. 17.5 lakhs (80 lakhs – 62.5 lakhs) should be expensed and debited to profit & loss A/c

(d) A company went into liquidation whose creditors are Rs. 36,000 includes Rs. 6,000 on account of wages of 15 men at Rs.100 per month for 4 months immediately before the date of winding up; Rs.9,000 being the salaries of 5 employees at Rs.300 per month for the previous 6 months, Rent for godown for the last six months amounting to Rs. 3,000; Income-tax deducted out of salaries of employees Rs.1,000 and Directors fees Rs.500; in addition it is estimated that the company would have to pay Rs.5,000 as compensation to an employee for injuries suffered by him, which was contingent liability not accepted by the company and not included in above said creditors figure.

Find the amount of Preferential Creditors.

Ans. 7 (d) **Calculation of Preferential Creditors**

(i) Wages of 15 man of Rs.100 p.m. for 4 month	6,000.00
(ii) Salaries of 5 employees Rs. 300 p.m. for 4 month	6,000.00
(iii) Income tax deducted out of salaries	1,000.00
(iv) Computation payable to an employee	5,000.00
	18,000.00

(e) M Ltd. launched a project for producing product A in Nov. 2008. The company incurred Rs.30 lakhs towards Research and Development expenses upto 31st March 2010. Due to unfavourable market conditions the management feels that it is not possible to manufacture and sold the product in the market for next so many years.

The management hence wants to defer the expenditure write off to future years. Advise the company as per the applicable Accounting Standard.

Ans. 7 (e) As per – 26 "Intangible Assets", following is the accounting treatment of research and development cost :-
Research Cost: As per this standard Research Cost be expensed as and when incurred, in other words the cost of research cannot be capitalized. The intangible asset arising from research should not be recorded as an asset and therefore the research cost of internal project shall be **treated as an expense** in financial statement

Development Expenses: The development expenses, cost of internal project also to be expensed as incurred unless they meet asset recognition criteria, before recognizing these costs as assets the following points should be demonstrated:

- Technical feasibility of the product
- Availability of product for use or sale
- Identification of cost incurred
- Probability of external market or
- The realistic expectation that there will be sufficient future revenues to cover cost.

If development expenses generate the intangible, which meets asset recognition criteria and other criteria as listed above, the intangible assets generated from development expenses are capitalized but what will be the amount at which these intangible assets are recognized? As per this Standard intangible asset shall be recognized at **cost.**

Hence, as the market conditions are unfavourable the cost incurred on Research & Development shall be expensed in current year.