Qn 1. Answer **all** questions : **[10 x 2 = 20]**

(i) The closing capital of Mr. B *as* on 31.3.2010 was Rs. 4,00,000. On 1.4.2009 his capital was Rs. 3,50,000. His net profit for the year ended 31.3.2010 was Rs. 1,00,000. He introduced Rs. 30,000 as additional capital in February, 2010. Find out the amount drawn by Mr. B for his domestic expenses.

(ii) A Machinery costing Rs. 20 lakhs has useful life for 5 years. At the end of 5 years its scrap value would be Rs. 2 lakhs. How much depreciation is to be charged in the books of the company as per Accounting Standard-6 ?

(iii) A, B and C are partners A became insolvent on 15.4.2010. The capital account balance of partner B is on the debit side. Partner B is solvent. Should partner B bear the loss arising on account of the insolvency of partner A ?

(iv) In Raj Co. Ltd., theft jxf cash of Rs. 2 lakhs by the Cashier in January, 2010 was detected in May, 2010. The accounts of the company were not yet approved by the Board of Directors of the company.

Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2010. Decide.

(v) What do you mean by the term Firm underwriting ?

(vi) Goverdhan Ltd. has equity capital of Rs. 20,00,000 consisting of fully paid equity shares of Rs. 10 each. The net profit for the year 2009-10 was Rs. 30,00,000. It has also issued 18,000, 10% convertible debentures of Rs. 50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. Compute the diluted earnings.

(vii) The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized Rs. 10,00,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration is Rs. 4,12,000. Calculate liquidator's remuneration if the surplus is insufficient to pay off unsecured creditors in toto.

(viii) The Maduri Municipal Corporation replaces part of its existing Water Mains with larger Mains at the cost of Rs. 1,50,00,000. The Original Cost of laying the old main was Rs. 30,00,000 and the present cost of laying those Mains would be three times the original cost. Calculate the amount to be capitalized.

(ix) The life fund of a life assurance company was Rs. 8,64,80,000 as on 31.3.2010. The interim bonus paid during the intervaluation period was Rs. 14,80,000. The periodical actuarial valuation determined the net liability at Rs. 7,42,50,000. Surplus brought forward from the previous valuation was Rs. 85,00,000. Calculate the net profit for the Valuation period.

(x) X Ltd. was incorporated on 1.8.2009 to take over the running business of M/s Kumar Bros, with assets from 1.4.2009. The accounts of the company were closed on 31.3.2010.

The average monthly Sales during the first four months of the year (2009-10) was twice the average monthly sales during each of the remaining eight months.

Calculate Time Ratio and Sales Ratio.

Ans. 1 Calculation of amount drawn by Mr. B for his domestic expenses

(i) Opening capital	=	350000
Add:- N.P	=	100000
Additional capital	=	30000
		480000
Less:- Closing capital	=	400000
Amount drawn by Mr. B		80000

(ii) As per AS-6

Annual depreciation $= \dfrac{\text{original cost} - \text{scrap value}}{\text{useful life}}$

$= \dfrac{\text{20 lakh} - \text{2 lakh}}{\text{5 years}}$

= 3.6 lakhs per annum.

(iii) As partner B's capital balance is on debit side hence he is insolvent and will not bear any loss on account of insolvency of partner A.

(iv) As per AS-4 "Contingencies and events occurring after balance sheet date" an item should be adjusted in books of account that provide additional evidence to assist they estimation of amount relating to conditions existing at the balance sheet date.

In the above case theft has been committed in Jan' 2010 and detected in May' 2010 hence it just provides an additional information of the events and hence should be adjusted.

(v) **Firm Underwriting : -** When an underwriter makes a definite commitment to take certain number of shares in addition to his under writing obligation, it is called 'Firm Underwriting:' He has to take up shares underwritten firm irrespective of public subscriptions. In such a case liability of each underwriter excluding firm underwriting and then his liability including firm underwriting is calculated. There are two methods of calculating the liability of underwriters. The method to be adopted depends upon the terms of agreement with the company. Under one method benefit of firm underwriting is given to individual underwriters for the share underwritten firm and hence firm application will be included in marked applications or may be separately deducted from gross liability. But under the second method, benefit of shares underwritten firm is given to all the underwriters in ratio of their respective gross liability and therefore, firm applications are included with unmarked applications.

(vi) Diluted earnings per share = $\frac{\text{net profit + debenture interest(1- tax rate)}}{\text{Proposed no. of equity shares}}$

$= \frac{30,00,000 + 90,000(1 - 0.30)}{2,00,000 + 90,000}$

= 10.562/- per share

(vii) Remuneration payable to liquidator of company:

on:

Assets realized(2% of Rs. 10,00,000)	= 20000
Amount available for unsecured creditors [412000 x 3/103]	= 12000
Total remuneration payable	32000

(viii) Current cost of old mains = 3000000 x 3
= 9000000

Original cost of new mains	= 15000000
Less:- Current cost of old mains	= 9000000
Amount to be capitalized	= 6000000

(ix) Valuation Balance Sheet

To net liability as per actual valuation	7,42,50,000	By life find as per balance sheet	8,64,80,000
To surplus(Bal fig.)	1,22,30,000		
	8,64,80,000		8,64,80,000

Net profit for the valuation period :

Surplus as per valuation Balance Sheet	=	1,22,30,000
Add:- Interim bonus paid	=	14,80,000
Less:- Opening surplus	=	85,00,000
		52,10,000

(x) Let the Avg. monthly sales be x

Therefore for the first four months = 4 x x x 2 times = 8x

Hence Avg. monthly sales for next eight months = 8 x x = 8x

Pre incorporation period sales(April09 – July09) = 4 x 2x = 8x

Post incorporation period sales(Aug09 – March10) = 8 x x = 8x

Ratio = 8x:8x

= 1:1

Time ratio = 4 months: 8 months = 1:2

Qn 2. ABC Ltd. took over a running business with effect from 1st April, 2009. The company was incorporated on 1st August_2J009. The following P & L A/c has been prepared for the year ended 31.3.2010 : **[16 Marks]**

Dr.	**Rs.**	**Cr.**	**Rs.**
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Misc. trade exp.	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		

To Director's fees	11,200		
To Bad debts	3,200		
To Commission to selling Agents	16,000		
To Audit fees	6,000		
To Debenture interest	3,000		
To Int. paid to vendors	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net profit	87,600		
	3,20,000		3,20,000

Additional information :

(a) Total sales for the year, which amounted to Rs. 19,20,000 arose evenly upto the date of 30.9.2009. Thereafter they spurted to record an increase of two-third during the rest of the year.

(b) Rent of office building was paid @ Rs. 2,000 per month upto September, 2009 and thereafter it was increased by Rs. 400 per month.

(c) Travelling expenses include Rs. 4,800 towards sales promotion.

(d) Depreciation include Rs. 600 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2009 by issuing equity shares of Rs. 10 each.

Prepare the P & L A/c in columnar form showing distinctly the allocation of expenses between pre and post incorporation periods.

Ans. 2 P/L A/C of ABC Ltd. for the year ended 31.3.2010

Particulars	Pre incorporation (4 months)	Post incorporation (8 months)	Particulars	Pre incorporation (4 months)	Post incorporation (8 months)
To salaries(4:8)	16,000	32,000	By	80,000	2,40,000
To stationery(4:8)	1,600	3,200	G.P(1:3)		
To traveling					
expenses					
Sales promotion(1:3)					
General(4:8)	1,200	3,600			
To	4,000	8,000			
advertisement(1:3)					
To misc. trade	4,000	12,000			
expenses(4:8)					
To rent(w.n.2)	12,600	25,200			
To electricity	8,000	18,400			
charges(4:8)					
To Director's fees	1,400	2,800			
To Bad debts(1:3)	--	11,200			
To commission to	800	2,400			
selling agents(1:3)					
To audit fees(w.n.4)	4,000	12,000			
To debenture Intt.					
To interest paid	--	6,000			
to vendor(w.n.3)	--	3,000			
To selling					
expenses(1:3)	2,800	1,400			
To dep.(w.n.5)					
To cap. Reserve.	6,300	18,900			
To net profit	3,000	6,600			
	14,300				
		73,300			
	80,000	2,40,000		80,000	2,40,000

Working notes:-

(1) Computation of ratio of sales

Let the sales for 1st six months from 1st April09 to 30th Sept09 be x

Accordingly $x + \left(\frac{2}{3}x + x\right) = 19{,}20{,}000$

$\Rightarrow \frac{8x}{3} = 19{,}20{,}000$

$\Rightarrow x = \frac{19{,}20{,}000 \times 3}{8} = 7{,}20{,}000.$

Sales for 1st April 2009 – 30th Sept2009 (six months) = 7,20,000

Sales per month = $\frac{7{,}20{,}000}{6 \text{ months}}$ = Rs. 1,20,000

(Hence sales accrue evenly)

Sales for 1st Oct2009 – 31st march2010 = 12,00,000(19,20,000 – 7,20,000)

Sales per month = $\frac{12{,}00{,}000}{6}$ = 2,00,000

Sales for pre incorporation period (4 months) = 1,20,000 x 4 = 4,80,000

Sales for post incorporation period (8 months) = (1,20,000 x 2 + 2,00,000 x 6)

= 14,40,000

∴ Ratio of Sales = 4,80,000 : 14,40,000 = 1:3

Computation of Rent

1 April 2009	-	30 Sept. 2009	=	Rs. 2,000 per month
1 Oct. 2009	-	31 Mar 2010	=	Rs. 2,400 per month

Rent for pre – incorporation period (4 months) = Rs. 2,000 x 4 = Rs. 8,000

Rent for post – incorporation period (8 months) = Rs. 2000 x 2 + Rs. 2400 x 6 = Rs. 18,400

(3) Interest paid to vendors = 4,200

Period of Interest = 1 Apr. 09 - 30 Sept. 09 = 6 months

Interest per month = $\frac{4{,}200}{6}$ = Rs. 700

Interest for pre – incorporation period = Rs. 700 x 4 months = 2,800

Interest for post incorporation period = Rs. 700 x 2 months

(1 Aug. – 30 Sep.) = 1,400

(4) It is assumed that audit fees have incurred during post – incorporation period.

(5) Total Depreciation = 9600 /-

Less : Depreciation on assets purchased during post acquisition period = 600/-

9000/-

Bal. Depreciation Ratio = 4 : 8

∴ Depreciation for pre – incorporation period = $9000 \times \frac{4}{12}$ = 3000/-

" for post " " = $9000 \times \frac{8}{12}$ = 6000 /-

Qn. 3. The following balances have been extracted at the end of March, 2010, from the books of an electricity company : **[16 marks]**

	Rs.		Rs.
Share capital	4,00,00,000	Consumer deposit	1,60,00,000
Fixed assets	10,00,00,000	Tariffs and dividend (control reserve)	40,00,000
Depreciation reserve on fixed assets	1,20,00,000	Development reserve	32,00,000
Reserve fund 12% debenture			

The company earned a profit of Rs. 1,12,00,000 (after tax in 2009-2010). Show how the profits have to be dealt with by the company assuming the bank rate was 10%. All workings should form part of your answers.

Ans. 3. **Composition of Capital Base**

(i) Cost of fixed Assets	10,00,00,000
(ii) Cost of Intangible Assets	32,00,000
(iii) Monthly Avg. of Current Assets	60,00,000
(iv) Investment against contingency R/s	48,00,000
Total (A)	11,40,00,000
Less : -	
(i) Loan from state electricity Board	1,00,00,000
(ii) Consumer deposit	1,60,00,000
(iii) Development Reserve	32,00,000
(iv) Depreciation Reserve on Fixed Assets	1,20,00,000
(v) 12% debentures	80,00,000
(vi) Tariff & dividend Control Reserve	40,00,000
(vii) Amount Contributed by Consumers	8,00,000
Total (B)	5,40,00,000
Capital Base (A – B)	6,00,00,000

Reasonable Return

a) Yield at Standard rate (Bank rate + 2%) (10% + 2%) (60,000,000 x 12%)	72,00,000
b) Income from investment other than	19,20,000
Contigency Reserve (8% x 2,40,00,000)	19,20,000
(c) 0.5% on loan from state electricity board (0.5% x 1,00,00,000)	50,000
(d) 0.5% on Development (0.5% x 32,00,000)	16,000
(e) 0.5% on debenture (0.5% x 80,00,000)	40,000
Reasonable return	92,26,000

Surplus = Profit - R. R.
= 1,12,00,000 – 92,26,000
= 19,74,000

Disposal of Surplus

20% of R. R = 92,26,000 x 20%
= 18,45,200

(i) Excess of 20% of R. R to Credited to C R R (Consumer Reserve)

Surplus – 20% of R. R
= 19,74,000 – 18,45,200
= 1,28,800 /-

(a) Return at the disposal of the company

5% of R. R = 5% of 92,26,000
Or = 4,61,300
1/3 of Surplus = 1/3 x 19,74,000
= 6,58,000
Whichever is less = 4,61,300

(b) ½ of balance (i.e. 1974000 – 461300 = 1512700)

Will be transferred to T D C R i.e

$\frac{1}{2} \times 1512700 = 756350$ /-

(c) ½ will be transferred to consumer

Rebate reserve i.e. 756350 /-

Qn. 4 Siva Ltd. has two departments X and Y. From the following particulars prepare departmental trading accounts and general profit and loss account for the year ending 31st March, 2009 : **[16 marks]**

	Dept. X Rs.	Dept. Y Rs.
Opening stock (at cost)	80,000	48,000
Purchases	3,68,000	2,72,000
Carriage inward	8,000	8,000
Wages	48,000	32,000
Sales	5,60,000	4,48,000
Purchased goods transferred		
By Dept. Y To X	40,000	--
By Dept. X to Y	--	32,000
Finished goods transferred		
By Dept. Y to X	1,40,000	--
By Dept. X to Y	--	1,60,000
Return of finished goods		
By Dept. Y to X	40,000	
By Dept. X to Y	--	28,000
Closing stock		
Purchased goods	18,000	24,000
Finished goods	96,000	56,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 25% of the closing finished stock with each department represents finished goods received from the other department.

Ans. 4 **Department trading a/c for due year ended 31.3.09**

Particulars	**Deptt X**	**Deptt. Y**	**Particulars**	**Deptt. X**	**Deptt. Y**
To Opening Stock	80000	48000	By Sales	560000	448000
To Purchase	368000	272000	By Deptt. X – Transfers		
To Carriage inward	8000	8000	Purchased goods	32000	
To Wages	48000	32000	Finished	160000	
To Deptt. x – transfers			By Deptt. Y Transfers		
Purchased goods	40000		Purchased goods		40000
Finished goods	140000		Transferred goods		140000
To Deptt. y - transfers					
Purchased goods		32000	By Return		
Finished goods		160000	Finished goods	28000	40000
" Return of Finished goods					
Dep. y to x			By Closing Stock		
Dep. x to y	40000	28,000	Purchased goods	18000	24000
" Gross Profit	170000	168000	Finished goods	96000	56000
	894000	748000		894000	748000

General Profit & Loss Account for year ended 31.3.09

Particulars		**Amount**	**Particulars**		**Amount**
To Stock Res :			By G. P.		
Deptt. x	7098		Deptt. X	170000	
Deptt. y	3542	10,640	Deptt. Y	168000	338000
To N. P.		327360			
		338000			338000

Working Note :

(1) Department percentage of G.P. on Sales :

	Deptt. X	Deptt. Y
Sales	5,60,000	4,48,000
Net transfers of finished goods	1,12,000	1,20,000
Total Sales	6,72,000	5,68,000
G. P.	1,70,000	168000
% of G.P. on Sales	25.2976%	29.5775%
	$\left(\frac{1,70,000}{6,72,000} \times 100\right)$	$\left(\frac{1,68,000}{5,68,000} \times 100\right)$

(2) Finished goods in due closing stock of manufactured goods :

Deptt. x : 25% of 96,000 = 24,000

Deptt. y : 25% of 56,000 = 14,000

(3) Unrealised profits

Deptt. x = 24,000 x 29.57705 % = 7098

Deptt. y = 14,000 x 25.2976% = 3542

Qn 5. (a) Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2010 on which date they dissolve partnership. The share Profit in the ratio of 5 : 3 : 2 : **[8 marks]**

Liabilities		**Rs.**	**Assets**	**Rs.**
Creditors		80,000	Plant and machinery	60,000
Loan A/c -	Amar	20,000	Premises	80,000
Capital A/c -	Amar	1,00,000	Stock	60,000
	Akbar	30,000	Debtors	1,20,000
	Antony	90,000		
		3,20,000		3,20,000

It was agreed to repay the amounts due to the partners as and when the assets were realised, viz.

April 15, 2010 Rs. 60,000

May 1, 2010 Rs. 1,46,000

May 31, 2010 Rs. 94,000

Prepare a statement showing how the distribution should be made under maximum loss method and write up the Cash account and Partner's capital account.

Ans. 5 (a) **Cash A/c**

Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
Apr. 15	To Realisation A/c	60,000	Apr. 15	By Realisation (Creditors)	60,000
May. 1	To Realisation A/c	1,46,000	May 1	" Realisation (Creditors)	20,000
May 31	To Realisation A/c	94,000	May 1	" By Realisation (loan)	20,000
			May 1	" By Amar's capital A/c	40,790
			May 1	" By Anthony's capital A/c	65,210
			May 31	" By Amar's capital A/c	49,210
			May 31	" Akbar's capital a/c	24,000
			May 31	" Anthony's capital a/c	20,790
		3,00,000			3,00,000

Partner's Capital A/c

Date	Particulars	Amar	Akbar	Anthony	Date	Particulars	Amar	Akbar	Anthony
May 31	To Realisation A/c (loss)	10,000	6,000	4,000	Mar31	By Balance b/d	1,00,000	30,000	90,000
May 1	Cash A/c	40,790	--	65,210					

May 31	To Cash	49,210	24,000	20,790					
		1,00,000	30,000	90,000			1,00,000	30,000	90,000

Working Note : **Statement of distribution under maximum loss method**

Particulars	Total	Creditors	Loan	Capital		
				Amar	Akbar	Anthony
Opening Balance (a)		80,000	20,000	1,00,000	30,000	90,000
1st Instalment on Apr 15 2010 paid to creditors	60,000	(60,000)	--	--	--	--
Balance (b)		20,000	20,000	1,00,000	30,000	90,000
2nd Instalment as on may 1, 2010	1,46,000					
Less : Amount paid to creditors & loan	40,000	(20,000)	(20,000)	--	--	--
Balance (c)	1,06,000	--	--	1,00,000	30,000	90,000
Less : Capital Balance	2,20,000					
Maximum loss distributed in ratio of 5:3:2	1,14,000			(57,000)	(34,200)	(22,800)
				43,000	(4,200)	67,200
Insolvency loss of akbar borne by amar & anthory in capital ratio of (10 : 9)				(2,210)	4200	(1,990)
Distribution (d) of 1,06,000				40,790	--	65,210
Balance e = (c) – (d)	1,14,000			59,210	30,000	24,790
Less : 3rd instalment	94,000					
Maximum loss to be distributed in ratio (5 : 3 :2)	20,000			(10,000)	(6,000)	(4,000)
Amount to be distributed				49,210	24,000	20,790

Qn. 5 (b) From the following information, prepare cash flow statement of A (P) Ltd. as at 31st March, 2010 by using indirect method : **[8 marks]**

Balance Sheet

Liabilities	**2009 Rs.**	**2010 Rs.**
Share capital	12,00,000	12,00,000
Profit & Loss A/c	8,50,000	10,00,000
Long Term Loans	10,00,000	10,60,000
Creditors	3,50,000	4,00,000
	34,00,000	36,60,000
Assets		
Fixed Assets	17,00,000	20,00,000
Investment in shares	2,00,000	2,00,000

Stock	6,80,000	7,00,000
Debtors	7,20,000	6,60,000
Cash	60,000	70,000
Bills Receivable	40,000	30,000
	34,00,000	36,60,000

Income Statement for the year ended 31st March, 2010

Sales		40,80,000
Less : Cost of sales		27,20,000
Gross Profit		13,60,000
Less : Operating expenses		
Administrative expenses	4,60,000	
Depreciation	2,20,000	
	6,80,000	6,80,000
Operating Profit		6,80,000
Add : Non-operating incomes (dividend received)		50,000
		7,30,000
Less : Interest paid		1,40,000
		5,90,000
Less : Income-tax		2,60,000
Profit after tax		3,30,000

Statement of Retained Earnings

	Rs.
Opening balance	8,50,000
Add : Profit	3,30,000
	11,80,000
Less : Dividend paid	1,80,000
Closing balance	10,00,000

Ans. 5 (b)

Cash flow statement of A (P) Ltd. as at 31st March 2010

	Particulars		**Amount**
(A)	Cash flow from operaticy activities		
	Profit after appropriations	1,50,000	
	Add : Dividend paid	1,80,000	
	Interest paid	1,40,000	
	Income Tax	2,60,000	
	Depreciation	2,20,000	
	Less : Dividend received	(50,000)	

	Operating profit before w.c. charges	9,00,000	
	Add : Increase in creditors	50,000	
	Decrease in debtors	60,000	
	Decrease in Bills Receivables	10,000	
	Less : Increase in Stock	(20,000)	

	Cash generated from operations	10,00,000	
	Less : Income tax paid	2,60,000	

	Net operating cash flow (a)		7,40,000
(B)	Cash flow few investing activities		
	Purchase of fixed assets (w.n.1)	(5,20,000)	
	Dividend received	50,000	
		-------------	(4,70,000)
	Net cash used in investing activities (b)		

(C) Cash flow few financing activities

Long term loan taken	60,000	
Dividend paid	(1,80,000)	
Interest paid	(1,40,000)	
Net cash used in financing activities (c)		(2,60,000)
Increase in cash (a) + (b) + (c)		10,000
Add : Opening cash & cash equivalents		60,000
Closing cash & cash equivalents		70,000

Working Note : -

Fixed Assets A/c

Particulars	**Amount**	**Particulars**	**Amount**
To Balance b/d	17,00,000	By Depreciation	2,20,000
" Bank (Balance Figure)	5,20,000	" Balance c/d	20,00,000
	22,20,000		22,20,000

Qn. 6 (a) A Ltd. purchased fixed assets costing Rs. 6,000 lakhs on 1.1.2009. This was financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = Rs. 40 and Rs. 45 as on 1.1.2009 and 31.12.2009 respectively. First instalment was paid on 31.12.2009.

You are required to state, how these transactions would be accounted for ? **[4 marks]**

Ans. 6 (a) **Foreign current Loan a/c**

Date	**Particulars**	**Lacs**	**Rate**	**Amount** (Rs. In lacs)	**Date**	**Particulars**	**(Lacs)**	**Rate**	**Amount**
31.12.09	To Bank a/c	50	45	2250	1.1.09	By Bank	150	40	6000
31.12.09	To Bal. c/d	100	45	4500	31.12.09	P & L a/c (exchange difference)	---	--	750 (b/f)
		150		6750			150		6750

As per AS-11 (Revised) all exchange differences shall be transferred to P & L account except incase of non integral foreign operations where the exchange difference will be transferred to foreign exchange translation reserve. Here in the question the entire loss of Rs.750 lacs on exchange will be transferred to profit & loss account for the ended on 31.12.09.

Qn. 6 (b) X Limited has provided depreciation as per accounting records of Rs. 8,00,000 and as per tax records same is Rs. 14,00,000. Unamortised preliminary expenses as per tax records is Rs. 11,200. There is adequate evidence of future profit sufficiency. How much deferred tax asset/liability should be recognised. Tax rate is 40%.

Ans. 6 (b)

Current Tax Liability [Rs. 1388800 x 40%]	5,55,520
Less : Tax on Accounting profit [Rs.800000 x 40%]	3,20,000
Deferred Tax asset	2,35,520

Note : It is assumed that Rs. 11,200 unamortised preliminary exps. can be set off from currents year taxable profit.

Qn. 6 (c) X Ltd. has its financial year ended 31.3.2009, fifteen Law suits outstanding, none of which has been settled by the time the accounts are approved by the directors. The directors have estimated that the probable outcomes as below : **[4 marks]**

Result	Probability	Amount of Loss Rs.
For first ten cases :		
Win	0.6	--
Lose-low damages	0.3	90,000
Lose-high damages	0.1	2,00,000
For remaining five cases :		
Win	0.5	--

Lose-low damages	0.3	60,000
Lose-high damages	0.2	1,00,000

The directors believe that the outcome of each case is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss.

Ans. 6 (c) According to AS 29 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied:
(i) There is a present obligation arising out of past events but not recognized as provision.
(ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
(iii) The possibility of an outflow of resources embodying economic benefits is also remote.
(iv) The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision. In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 60% and for remaining five cases is 50%. As per AS 29, we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is not remote rather there is reasonable possibility of loss, therefore disclosure by way of note should be made. For the purpose of the disclosure of contingent liability by way of note, amount may be calculated as under:
Expected loss in next ten cases = 30% of Rs. 90,000+ 10% of Rs. 2,00,000
= Rs. 27,000+ Rs. 20,000
= Rs. 47,000
Expected loss in remaining five cases = 30% of Rs. 60,000+ 20% of Rs. 1,00,000
= Rs. 18,000+ Rs. 20,000
= Rs. 38,000
To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of Rs. 6,60,000(Rs47,000□10 + Rs. 38,000□5) as contingent liability.

Qn. 6 (d) From the following information find out the amount of provision to be shown in the Profit and Loss account of a Commercial Bank : **[4 marks]**

Assets	Rs. in lakhs
Standard	4,000
Sub-standard	2,000
Doubtful upto one year	900
Doubtful more than one year but upto three years	400
Doubtful more than three years	300
Loss assets	500
Doubtful assets are considered as fully secured.	

Ans. 6 (d) Calculation of provision to be shown in the profit & loss account of a commercial bank

Particulars	**Amount Rs. Lacs**	**Provision required %**	**Amount Rs. Lacs**
Standard	4000	40%	16
Sub Standard	2000	10%	200
Doubtful - One year	900	20%	180
- 1 to 3 years	400	30%	120
- more than 3 years	300	100%	300
Loss Assets	500	100%	500
Provision required		=	1316
