Advanced Accounts Old syllabus answer key

1a)

Calculation of Profit or Loss on forward contract to be recognised in the book of Stem Ltd.

Forward contract rate	*₹ 62.15 per dollar*
Less: Spot Rate	*₹ 60.75 per dollar*
Loss	*₹ 1.40 per dollar*
Forward Contract Amount	*US$ 30000*
Total Loss on entering into forward contract	*= US$ 30,000 x ₹ 1.40*
	= ₹ 42,000
Contract Period	*6 Months*

Out of total contract period of 6 months, 4 months are falling in the financial year 2013-14.

Loss for the period from 1st Dec.2013 to 31st March, 2014= (₹ 42,000/6) x 4 = ₹ 28,000.

Thus the loss amounting to ₹ 28,000 for the period is to be recognised in the year ended 31st March, 2014.

1b)

In the books of Head Office

Journal Entries

	Particulars		*Dr. Amount ₹*	*Cr. Amount ₹*
(i)	Loss of goods due to theft during transit	Dr.	12,000	
	To Purchases account			12,000
	(Being goods lost on account of theft during transit)			
(ii)	Salaries account	Dr.	15,000	
	To Branch account			15,000
	(Being salary paid by the branch for H.O. employee)			
(iii)	No entry in the books of head office for goods sent to branch not received by branch till 31st March 2012			
(iv)	Cash in transit account	Dr.	10,000	
	To Branch account			10,000
	(Being remittance by branch not received by 31st March, 2012)			
(v)	Branch account	Dr.	25,000	
	To Purchases account			25,000
	(Being rectification of entry for payment for goods purchased by branch wrongly debited to purchase account)			

Note: In entry (i), it is assumed that refusal of branch manager (to accept liability of stolen goods) is accepted by the Head Office. Alternatively, Branch account will be credited on the basis of assumption that refusal of branch manager is not accepted by the Head Office.

1c)

18. (a) As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, *i.e.*, they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue. Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

1d)

As per AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed programme design or working model. In this case, Rs. 45,000 would be recorded as an expense (Rs. 25,000 for completion of detailed program design and Rs. 20,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (Rs. 42,000 + Rs. 12,000 + Rs. 13,000) Rs. 67,000.

2)

(i) **In the books of XYZ & Co.**

Realisation Account

		₹			₹
To	Plant & Machinery	5,00,000	By	Trade payables	3,00,000
To	Furniture & Fixture	50,000	By	ABC Ltd. (Refer W.N.)	6,00,000
To	Stock in trade	2,00,000	By	Partners' Capital Accounts (loss):	
To	Trade receivables	2,00,000		X's Capital A/c	20,000
				Y's Capital A/c	20,000
				Z's Capital A/c	10,000
		9,50,000			9,50,000

Partners' Capital Accounts

		X ₹	Y ₹	Z ₹			X ₹	Y ₹	Z ₹
To	Realisation A/c	20,000	20,000	10,000	By	Balance b/d	2,00,000	3,00,000	1,00,000
To	Shares in ABC Ltd.	2,40,000	2,40,000	1,20,000	By	General Reserve	40,000	40,000	20,000
To	Cash A/c	-	80,000	-	By	Cash A/c	20,000	-	10,000
		2,60,000	3,40,000	1,30,000			2,60,000	3,40,000	1,30,000

Cash and Bank Account

		Cash ₹	Bank ₹			Cash ₹	Bank ₹
To	Balance b/d	40,000	10,000	By	Cash A/c (Contra)*		10,000
To	Bank A/c (Contra)*	10,000		By	Y	80,000	
To	X	20,000					
To	Z	10,000					
		80,000	10,000			80,000	10,000

(ii) **In the Books of ABC Ltd.**

Journal Entries

			Dr. (₹)	Cr. (₹)
1.	Business Purchase Account	Dr.	6,00,000	
	To XYZ & Co.			6,00,000
	(Being business of XYZ & Co. purchased and payment due)			
2.	Plant and Machinery Account	Dr.	5,00,000	
	Furniture and Fixture Account	Dr.	50,000	
	Inventories Account	Dr.	2,00,000	
	Trade Receivables Account	Dr.	2,00,000	
	To Trade Payables Account			3,00,000
	To Unrecorded Liability Account			25,000
	To Business Purchase Account			6,00,000
	To Capital Reserve Account (Bal. Fig.)			25,000
	(Being take over of all assets and liabilities)			
3.	XYZ & Co.	Dr.	6,00,000	
	To Equity Share Capital Account			5,00,000

	To Securities Premium Account			1,00,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)			
4.	Trade Payables Account	Dr.	1,00,000	
	To Trade Receivables Account			1,00,000
	(Being mutual owings eliminated)			

Balance Sheet of ABC Ltd. (After take over of XYZ & Co.)

as at 31.3.20015

	Note No.	₹
Equity and Liabilities		
Shareholders funds		
Share capital	1	25,00,000
Reserve and Surplus	2	8,25,000
Current liabilities		
Trade Payables (3,00,000 + 13,00,000 – 1,00,000)		15,00,000
Others (Unrecorded Liability)		25,000
Total		48,50,000
Assets		
Non-current assets		
Fixed assets		
Tangible assets	3	23,75,000
Current assets		
Inventories(2,00,000 + 8,50,000)		10,50,000
Trade Receivables (2,00,000 + 8,25,000 – 1,00,000)		9,25,000
Cash and cash equivalent	4	5,00,000
Total		48,50,000

Notes to Accounts

			₹
1.	*Share Capital*		
	2,50,000, Equity shares of ₹ 10 each fully paid up		25,00,000

	(out of which 50,000 shares has been issued for consideration other than cash)		
2	*Reserve and Surplus*		
	Securities Premium	1,00,000	
	Capital Reserve	25,000	
	General Reserve	7,00,000	8,25,000
3.	*Tangible assets*		
	Plant and Machinery (5,00,000 + 16,00,000)	21,00,000	
	Furniture and fixture (50,000 + 2,25,000)	2,75,000	23,75,000
4.	*Cash and cash equivalent*		
	Cash at Bank	4,00,000	
	Cash in hand	1,00,000	5,00,000

Working Note:

Computation of purchase consideration:

50,000, Equity shares of ₹ 12 (10+2) each = ₹ 6,00,000

Equity shares distributed among partners:

Partner X	=	20,000 shares @ ₹ 12	= ₹ 2,40,000
Partner Y	=	20,000 shares @ ₹ 12	= ₹ 2,40,000
Partner Z	=	10,000 shares @ ₹ 12	= ₹ 1,20,000
			₹ 6,00,000

3a)

Journal Entry

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	57,500	
Underwriting commission A/c	Dr.	80,000	
Brokerage on shares A/c	Dr.	500	
To Equity Shares applications A/c			1,00,000
To Bank A/c			38,000

Working Notes: (for description of the columns see below)

Name	1	2	3	4	5	6	7	8	9	10	11	12
A.	1,00,000	1,02,000	2,500	1,04,500	–4,500	1,00,000	—	—	20,000	—	—	20,000
B.	1,00,000	95,000	2,500	97,500	1,500	99,000	1,000	2,000	20,000	—	—	18,000
C.	1,00,000	60,000	2,500	62,500	1,500	64,000	36,000	72,000	20,000	—	52,000	—
D.	40,000	32,000	1,000	33,000	600	33,600	6,400	12,800	8,000	500	4,300	—
E.	60,000	51,000	1,500	52,500	900	53,400	6,600	13,200	12,000	—	1,200	—
	4,00,000	3,40,000	10,000	3,50,000	—	3,50,000	50,000	1,00,000	80,000	500	57,500	38,000

Column No.

(1) Commitment—No. of Shares

(2) Marked Applications

(3) Additional proportionate no. of direct applications or unmarked applicaitons

(4) Total (2) + (3)

(5) Allocation of surplus – done in the ratio of underwriting i.e 25:25:10:15 (B, C, D & E)

(6) Total (4)+(5) – this will be the total credited applications

(7) Final Deficit (1)—(6): Commitment – Total Credited Applicaitons

(8) Amount Receivable from underwriters due @ ₹ 2 per share.

(9) Underwriting Commission due @ 2 % nominal value.

(10) Brokerage due @ 1/2%: Only payable to D for 10,000/- shares applied by him on par value of the shares i.e on Rs 100,000

(11) Due from underwriters.

(12) Due to underwriters.

3b)

(b) Journal Entries in the books of Arihant Ltd.

			₹	₹
10.12.12 to 31.3.13	Bank A/c (16,000 x 50)	Dr.	8,00,000	
	Employee compensation expense A/c (16,000 x 70)	Dr.	11,20,000	
	To Equity share capital A/c (16,000 x 10)			1,60,000
	To Securities premium A/c (16,000 x 110)			17,60,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.13	Profit and Loss A/c	Dr.	11,20,000	
	To Employee compensation expense A/c			11,20,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)			

4)

		Dr. ₹	Cr. ₹
Equity Share Capital (₹ 100) A/c	Dr.	10,00,000	
To Share Surrender A/c			5,00,000
To Equity Share Capital (₹ 10) A/c			5,00,000
(Subdivision of 10,000 equity shares of ₹ 100 each into 1,00,000 equity shares of ₹ 10 each and surrender of 50,000 of such subdivided shares as per capital reduction scheme)			
12% Debentures A/c	Dr.	1,50,000	
Accrued Interest A/c	Dr.	18,000	
To Reconstruction A/c			1,68,000
(Transferred 75% of the claims of the debentureholders to reconstruction account in consideration of which 12% preference shares are being issued out of share surrender account as per capital reduction scheme)			
Trade payables A/c	Dr.	72,000	
To Reconstruction A/c			72,000
(Transferred claims of the trade payables to reconstruction account, 50% of which is being clear reduction and equity shares are being issued in consideration of the balance)			
Share Surrender A/c	Dr.	5,00,000	
To 12% Preference Share Capital A/c			1,00,000
To Equity Share Capital A/c			36,000
To Reconstruction A/c			3,64,000
(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as a per scheme and the balance in share surrender account is being transferred to reconstruction account)			

Reconstruction A/c	Dr.	6,04,000	
To Profit and Loss A/c			6,00,000
To Capital Reserve A/c			4,000
(Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve)			

Balance Sheet of Revise Limited (and reduced) as on...

Particulars	Note No.	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,36,000
(b) Reserves and Surplus	2	4,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	50,000
(3) Current Liabilities		
(a) Other current liabilities	4	6,000
(b) Short-term provisions	5	24,000
Total		7,20,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	6	1,00,000
(2) Current assets		
(a) Current investments		
(b) Inventories		3,20,000
(c) Trade receivables		2,70,000
(d) Cash and cash equivalents		30,000
Total		7,20,000

Notes to Accounts

		₹
1.	**Share Capital**	
	Equity Share Capital	
	Issued Capital : 53,600 Equity Shares of ₹ 10 each	5,36,000

	Preference Share Capital	
	Preference Shares	1,00,000
	(Of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)	
		6,36,000
2.	**Reserve and Surplus**	
	Capital Reserve	4,000
3.	**Long-term borrowings**	
	Unsecured Loans	
	12% Debentures	50,000
4.	**Other current liabilities**	
	Accrued interest	6,000
5.	**Short-term provisions**	
	Provision for Income-tax	24,000
6.	**Tangible assets**	
	Machineries	1,00,000

5a)

Form B-RA (Prescribed by IRDA)

Sunlife General Insurance Company

Revenue Account for the year ended 31st March, 2013

Particulars	*Schedule*	*Amount (₹)*
Premium earned (net)	1	66,80,000
Profit / Loss on sale / redemption of investments		
Others (to be specified)		
Interest, dividend and rent		
Total (A)		66,80,000
Claims incurred (Net)	2	45,26,000
Commission	3	1,47,000
Operating expenses related to insurance business	4	1,50,000
Total (B)		48,23,000
Operating profit from insurance business (A-B)		18,57,000

Schedules forming part of revenue account

Schedule 1 : Premium Earned (Net)

Particulars	₹
Premium from direct business	65,75,000
Add: Premium on reinsurance accepted	9,50,000
Less: Premium on reinsurance ceded	(4,75,000)
Net premium	70,50,000
Adjustment for change in reserve for unexpired risks (W.N.2)	(3,70,000)
Total premium earned (net)	66,80,000

Schedule 2 : Claims Incurred (Net)

Particulars	₹
Claims paid on direct business (W.N.1)	43,30,000
Add: Re-insurance accepted (W.N.1)	4,73,000
Less: Re-insurance ceded (W.N.1)	(3,70,000)
Net claims paid	44,33,000
Add: Claims outstanding at the end of the year	7,18,000
Less: Claims outstanding at the beginning of the year	(6,25,000)
Total claims incurred	45,26,000

Schedule 3 : Commission

Particulars	₹
Commission paid on direct business	1,50,000
Add: Commission on reinsurance accepted	11,000
Less: Commission on reinsurance ceded	(14,000)
	1,47,000

Schedule 4 : Operating Expenses related to Insurance Business

Particulars	₹
Expenses of management (2,30,000 – 35,000 – 45,000)	1,50,000
	1,50,000

Working Notes:

1. Claims incurred

Particulars	*Direct business (₹)*	*Re-insurance accepted (₹)*	*Re-insurance ceded (₹)*
Paid/received	42,50,000	5,00,000	3,25,000
Add: Outstanding at the end of the year		60,000	1,10,000
Expenses in connection with settlement of claim (35,000 + 45,000)	80,000		
Less: Outstanding at the beginning of the year		(87,000)	(65,000)
	43,30,000	4,73,000	3,70,000

Note: Commission & Claims on reinsurance ceded represent income as the business is passed on to the reinsurer.

2. Change in reserve for unexpired risk

	₹
Opening reserve as on 31st March, 2012	24,50,000
Less: Closing reserve as on 31st March, 2013 (₹ 70,50,000 x 40%)	(28,20,000)
Additional provision required	(3,70,000)

5b)

Calculation of Rebate on bills discounted

S.No.	*Amount (₹)*	*Due date (year 2013)*	*Unexpired portion from 31st March, 2013*	*Rate of discount*	*Rebate on bills discounted (₹)*
(i)	18,25,000	June 5	66 days	12%	39,600
(ii)	50,00,000	June 12	73 days	12%	1,20,000
(iii)	28,20,000	June 25	86 days	14%	93,021
(iv)	40,60,000	July 6	97 days	16%	1,72,633
	1,37,05,000				4,25,254

Journal Entries in the books of X Bank Ltd.

	Particulars		Dr. (₹)	Cr. (₹)
(1)	Rebate on bills discounted A/c	Dr.	2,21,600	
	To Discount on bills A/c			2,21,600
	(Being the transfer of opening balance of rebate on bills discounted account to discount on bills account)			
(2)	Discount on bills A/c	Dr.	4,25,254	
	To Rebate on bills discounted A/c			4,25,254
	(Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward to next year)			
(3)	Discount on bills A/c	Dr.	8,52,996	
	To Profit and Loss A/c			8,52,996
	(Being the amount of income for the year transferred from Discount on bills A/c to Profit and Loss A/c)			

Working Note:

Amount of discount to be credited to the Profit and Loss Account

	₹
Transfer from Rebate on bills discounted A/c as on 31st March, 2012	2,21,600
Add: Discount received during the year ended 31st March, 2013	10,56,650
	12,78,250
Less: Rebate on bills discounted as on 31st March, 2013	(4,25,254)
Discount credited to Profit and Loss Account	8,52,996

6)

In the books of Mr. Chena Swami
Salem Branch Account

	Rs.		Rs.
To Balance b/d		By Bank (Remittance to H.O.)	19,50,000
Opening stock:			
Ghee	40,000	By Balance c/d	
Refined Oil	22,500	Closing stock:	
Debtors	1,80,000	Refined oil	19,500
Cash on hand	25,690	Ghee	90,000
Furniture & fittings	23,800	Debtors (W.N. 1)	2,10,000
To Goods sent to Branch A/c		Cash on hand (W.N. 2)	44,800
Refined Oil (30x1500x12)	5,40,000	Furniture & fittings	21,420
Ghee (20x5000x12)	12,00,000		
To Bank (Expenses paid by H.O.)	76,800		
To Branch manager's commission (2,26,930 x 10/110)	20,630		
To Net Profit transferred to General P & L A/c	2,06,300		
	23,35,720		23,35,720

Mr. Chena Swami
Trading and Profit and Loss account for the year ended 31st March, 2018
(Excluding branch transactions)

			Rs.			Rs.
To	Opening Stock:			By	Sales:	
	Refined Oil		44,000		Refined Oil	24,10,000
	Ghee		10,65,000		Ghee	38,40,500
To	Purchases:			By	Closing Stock:	
	Refined Oil	27,50,000			Refined Oil	8,90,000
	Less: Goods sent to Branch	(5,40,000)	22,10,000		Ghee	15,70,000
	Ghee	48,28,000				
	Less: Goods sent to Branch	(12,00,000)	36,28,000			
To	Direct Expenses		6,35,800			
To	Gross Profit		11,27,700			
			87,10,500			87,10,500
To	Manager's Salary		2,40,000	By	Gross Profit	11,27,700
To	General Expenses		1,86,000	By	Branch Profit transferred	2,26,930
To	Depreciation					
	Furniture (88,600-79,740)		8,860			
	Building (5,10,800+2,41,600- 7,14,780)		37,620			
To	Net profit		8,82,150			
			13,54,630			13,54,630

Working Notes:

(1) **Debtors Account**

		Rs.		*Rs.*
To	Balance b/d	1,80,000	By Cash Collections	20,15,000
To	Sales made during the year:		By Balance c/d (Bal. Figure)	2,10,000
	Refined oil	5,95,000		
	Ghee	14,50,000		
		22,25,000		22,25,000

(2) **Branch Cash Account**

	Rs.		Rs.
To Balance b/d	25,690	By Remittance	19,50,000
To Collections	20,15,000	By Exp.	45,890
		By Balance c/d (Bal. Figure)	44,800
	20,40,690		20,40,690

7a)

Garner vs. Murray rule

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

Non-Applicability of Garner vs Murray rule:

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

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

7b)

Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year

= ₹ 50,000 x 0.7513

= ₹ 37,565

Present value of lease payments = ₹ 5,00,000 – ₹ 37,565

= ₹ 4,62,435

The percentage of present value of lease payments to fair value of the equipment is

(₹ 4,62,435/ ₹ 5,00,000) x 100 = 92.487%.

Since, lease payments substantially covers the major portion of the fair value; the lease constitutes a finance lease.

Calculation of Unearned Finance Income

Annual lease payment = ₹ 4,62,435/ 2.4868 =₹ 1,85,956 (approx.)

Gross investment in the lease = Total minimum lease payments + unguaranteed residual value

= (₹ 1,85,956 × 3) + ₹ 50,000

= ₹ 5,57,868 + ₹ 50,000 = ₹ 6,07,868

Unearned finance income = Gross investment - Present value of minimum lease payments and unguaranteed residual value

= ₹ 6,07,868 – ₹ 5,00,000 = ₹ 1,07,868

7c)

Finance Lease is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership. As per AS 19, in following situations, the lease transactions would be classified as Finance lease:

(i) The lessee will get the ownership of leased asset at the end of the lease term.

(ii) The lessee has an option to buy the leased asset at the end of the lease term at price, which is lower than its expected fair value at the date on which option will be exercised.

(iii) The lease term covers the major part of the life of asset even if title is not transferred.

(iv) At the beginning of lease term, present value of minimum lease rental covers the initial fair value.

7d)

Assuming that partly paid shares are entitled to participate in the dividend to the extent of amount paid, number of partly paid equity shares would be taken as 300 for the purpose of calculation of earnings per share.

Computation of weighted average would be as follows:

(1,800 x 12/12) + (300 x 2/12) = 1,850 shares.

In case of a bonus issue or a share split, equity shares are issued to existing shareholders for no additional consideration. Therefore, the number of equity shares outstanding is increased without an increase in resources. The number of equity shares outstanding before the event is adjusted for the proportionate change in the number of equity shares outstanding as if the event had occurred at the beginning of the earliest period reported.

7e)

Calculation of unrealized profit of each department and total unrealized profit

	Dept. A	*Dept. B*	*Dept. C*	*Total*
	₹	₹	₹	₹
Unrealized Profit of:				
Department A		45,000 x 50/150 = 15,000	42,000 x 20/120 = 7,000	22,000
Department B	40,000 x .25 = 10,000		72,000 x .15= 10,800	20,800
Department C	39,000 x 30/130 = 9,000	42,000 x 40/140 = 12,000		21,000
				63,800