SAP 1(iii) Accounts Answer Key

1 A.

As per para 22 of AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Prashant Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

'The company values its inventory at lower of cost and net realisable value. Since net realisable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2014-15, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by ₹16,000.

1 B.

X Ltd. invested ₹600 lakhs in the equity shares of Y Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹300 lakhs and remaining as temporary (current) investment i.e. ₹300 lakhs. Irrespective of the fact that investment has been held by X Ltd. only for 3 months (from 1.1.2014 to 31.3.2014), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2014 became ₹200 lakhs i.e. ₹100 lakhs in respect of current investment and ₹100 lakhs in respect of long term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹100 lakhs. The reduction of ₹200 lakhs in the carrying value of current investment will be charged to the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline.

Here, Y Ltd. lost a case of copyright which drastically reduced the realisable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long term investment by ₹200 lakhs and show the investments at ₹100 lakhs, since the downfall in the value of shares is other than temporary. The reduction of ₹200 lakhs in the carrying value of long term investment will be charged to the Statement of profit and loss.

Note: Students are advised to refer 'chapter 12' for problems based on practical application of AS 13.

1 C.

Case 1: ***Actual production is 1 lac units. Fixed overhead on the basis of normal capacity and actual overhead will lead to same figure of ₹ 18 lacs. Therefore it is advisable to include this on normal capacity.***

Case 2: ***Actual production is 90,000 units. Fixed overhead is not going to change with the change in output and will remain constant at ₹ 18 lacs, therefore, overheads on actual basis is ₹ 20 (18 lacs/ 90 thousands). Hence by valuing inventory at ₹ 20 each for fixed overhead purpose, it will be overvalued and the losses of ₹ 1.8 lacs will also be included in closing inventory leading to a higher gross profit then actually earned. Therefore, it is advisable to include fixed overhead per unit on normal capacity to actual production (90,000 x 18) ₹ 16.2 lacs and rest ₹ 1.2 lacs shall be transferred to Profit & Loss Account.***

Case 3: ***Actual production is 1.2 lacs units. Fixed overhead is not going to change with the change in output and will remain constant at ₹ 18 lacs, therefore, overheads on actual basis is ₹ 15 (18 lacs/ 1.2 lacs). Hence by valuing inventory at ₹ 18 each for fixed overhead purpose, we will be adding the element of cost to inventory which actually has not been incurred. At ₹ 18 per unit, total fixed overhead comes to ₹ 21.6 lacs whereas, actual fixed overhead expense is only ₹ 18 lacs. Therefore, it is advisable to include fixed overhead on actual basis (1.2 lacs x 15) ₹ 18 lacs.***

2.

Income and Expenditure Account of Retreat & Refresh Club
for the year ended 31st March, 2016

Expenditure		*Amount*	*Income*	*Amount*
		₹		₹
To Honoraria to secretary		19,200	By Subscriptions (W.N.3)	41,960
To Misc. expenses		6,120	By Sale of old magazines	9,600
To Rates and taxes		5,040	By Entertainment fees	17,080
To Groundman's wages		3,360	By Bank interest	920
To Printing and stationary		1,880	By Bar receipts	29,800
To Telephone expenses		9,560	By Profit on sale of car (W.N.5)	4,400
To Bar expenses				
Opening bar stock	2,840			
Add. Purchases (W.N.2)	22,440			
	25,280			
Less: Closing bar stock	(3,480)	21,800		
To Repairs		1,280		
To Depreciation				
Club premises (W.N.4)	2,040			
Car (W.N. 6)	9,360	11,400		
To Excess of income over expenditure transferred to capital fund		24,120		
		1,03,760		1,03,760

Balance Sheet of Retreat & Refresh Club as on 31st March, 2016

Liabilities		*Amount*	*Assets*	*Amount*
		₹		₹
Capital fund (W.N. 1)	87,200		Club Premises	38,760
Add: Excess of income over expenditure	24,120	1,11,320	Car	53,040
			Bar stock	3,480
Outstanding liabilities for bar purchases		1,720	Outstanding subscription	3,920
			Cash and bank	13,840
		1,13,040		1,13,040

Working Notes:

1. Balance Sheet of Retreat & Refresh Club as on 1st April, 2015

Liabilities	*Amount*	*Assets*		*Amount*
	₹			₹
Amount due for bar purchases	2,360	Club premises	1,16,000	
		Less: Depreciation	(75,200)	40,800
Capital fund on 1.4.2015 (balancing figure)	87,200	Car	48,760	
		Less: Depreciation	(41,160)	7,600
		Bar stock		2,840
		Outstanding subscription		4,800
		Cash at bank		33,520
	89,560			89,560

2. Calculation of bar purchases for the year

	₹
Bar payments as per receipts and payments account	23,080
Add: Amount due on 31st March, 2016	1,720
	24,800
Less: Amount due on 1st April, 2015	(2,360)
	22,440

3. Calculation of subscriptions accrued during the year

	₹
Subscriptions received as per receipts and payments account	42,840
Add: Outstanding on 31st March, 2016	3,920
	46,760
Less: Outstanding on 1st April, 2015	(4,800)
	41,960

4. Depreciation on club premises and its written down value on 31st March, 2016

	₹
Written down value on 1st April, 2015 (1,16,000- 75,200)	40,800
Less: Depreciation for the year @ 5% p.a.	(2,040)
	38,760

5. Calculation of profit on sale of car

		₹
Sale proceeds of old car		12,000
Less: Written down value of old car:		
Cost of car on 1st April, 2015	48,760	
Less: Depreciation upto 1st April, 2015	(41,160)	(7,600)
		4,400

6. Depreciation on car and its written down value on 31st March, 2016

	₹
Cost of new car purchased (50,400 + 12,000)	62,400
Less: Depreciation for the year @ 15% p.a.	(9,360)
Written down value on 31st March, 2016	53,040

Note: The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing.

3 A

13. ***In the books of Meera***

Investment Account (Shares in Kumar Limited)

Date	*Particulars*	*No. of Shares*	*Income*	*Amount*	*Date*	*Particulars*	*No. of Shares*	*Income*	*Amount*
2013			₹	₹	*2013*			₹	₹
April 1	To Bank (Purchases)	40,000	-	60,000	May 15	By Bank (Sale)	8,000	-	15,200
May 15	To Profit & Loss A/c (W.N.1)	-	-	3,200	Sept. 30	By Bank (Sale of Right of 2,400 shares @ 40 paise per share)	-	-	960
June 15	To Bonus Issue	8,000	-	Nil	2014				
July 15	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on ₹ 32,000)		4,800	-
Sept. 15	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2014 March 31	To Profit & Loss A/c (W.N.2)			3,890	Mar. 31	By Balance c/d $\left(\frac{24,000}{44,000}\times 53,040\right)$	24,000	-	28,930
	To Profit & Loss A/c	-	4,800						
		52,000	4,800	73,090			52,000	4,800	73,090

Working Notes:

(1)	***Profit on Sale on 15-5-2013:***		
	Cost of 8,000 shares @ ₹1.50	₹ 12,000	
	Less: Sales price	₹ 15,200	
	Profit		₹ 3,200
(2)	***Cost of 20,000 shares sold:***		
	Cost of 44,000 shares (48,000 + 6,000)	₹ 54,000	
	Less: Amount received from rights	₹ 960	
	Cost of 44,000 shares		₹ 53,040
	$\therefore$ Cost of 20,000 shares $\left(\frac{₹\,53{,}040}{44{,}000 \text{ shares}} \times 20{,}000 \text{ shares}\right)$		₹ 24,110
	Profit on sale of 20,000 shares (₹ 28,000 – ₹ 24,110)		₹ 3,890

3 B

Statement showing computation of sum insured under various cases

	(i)	(ii)	(iii)	(iv)	(v)	(vi)
Sales	20,70,000	20,70,000	20,70,000	20,70,000	19,80,000	20,70,000
Less: Variable exp	16,33,000	16,33,000	18,77,950	15,51,350	15,62,000	14,69,700
Gross profit	4,37,000	4,37,000	1,92,050	5,18,650	4,18,000	6,00,300
Add: increase in Insured standing charges	-	-	15,000	-	22,500	11,250*
Less: uninsured standing charges	-	(75,000)	-	-	-	(75,000)
Sum insurable	4,37,000	3,62,000	2,07,050	5,18,650	4,40,500	5,36,550

Note:

1. The above solution is based on the assumption that increase in sale is due to increase in volume of sales. Alternatively, it may be assumed that this increase is because of rise in selling price. In that case, there will be no proportionate increase in variable expenses and the answer will get changed accordingly.
2. *In case (vi), it is given in the question that 50% of the present standing charges are to be insured. It is assumed in the above answer that 50% of the increased standing charges are insured.
3. In case (iii), 15% increase in variable expenses has been calculated after considering proportionate increase in variable expenses due to increase in turnover.

4 A.

Journal Entries

		₹	₹
(i)	Equity share capital (₹ 50) A/c Dr.	60,00,000	
	To Equity share capital (₹ 10)* A/c		8,00,000
	To 9% Preference share capital A/c (25,000 x ₹ 8)		2,00,000
	To 10% Debentures A/c (3,500 x ₹ 80)		2,80,000
	To Capital Reduction A/c		47,20,000
	(Being payment made in lieu of equity share capital of ₹ 50 each by issue of equity shares of ₹ 10 each, 9% Preference share capital and 10% Debentures as per reconstruction scheme)		
(ii)	9% Preference Share capital (₹ 10) A/c Dr.	40,00,000	
	To 9% Preference Share Capital (₹ 8) A/c		32,00,000
	To Capital Reduction A/c		8,00,000
	(Being 9% preference share capital of ₹ 10 each reduced to ₹ 8 each as per reconstruction scheme)		
(iii)	Bank A/c Dr.	16,00,000	
	To Equity Share Capital (₹ 10) A/c		16,00,000
	(Being preference share holders subscribed for 2 new equity shares of 10 each against every 5 shares)		
(iv)	(a) Provision for Taxation A/c Dr.	75,000	
	To Capital Reduction A/c		9,000
	To Taxation Liability A/c		66,000
	(Being liability for taxation settled)		
	(b) Taxation Liability A/c Dr.	66,000	
	To Bank A/c		66,000
	(Being liability for taxation paid)		

Holding interpreted as number of shares i.e. number of newly issued shares computed as 2/3rd of 1,20,000 80,000

(v)	Trade payables A/c Dr.	1,00,000	
	To Equity share capital A/c (7,000 x ₹ 10)		70,000
	To Capital Reduction A/c		30,000
	(Being payment made to creditors in shares to the extent of 70% as per reconstruction scheme)		
(vi)	Trade Payables A/c Dr.	5,00,000	
	To 9% Preference share capital A/c (43,750 x ₹ 8)		3,50,000
	To Bank A/c		1,20,000
	To Capital Reduction A/c		30,000
	(Being payment made to creditors in shares and cash as per reconstruction scheme)		
(vii)	Capital Reduction A/c Dr.	26,000	
	To Bank A/c		26,000
	(Being contractual commitment settled by payment of 4% penalty)		
(viii)	7% Debentures A/c Dr.	23,00,000	
	To Plant & Machinery A/c		22,00,000
	To Capital Reduction A/c		1,00,000
	(Being 7% debentures holders settled through charge of plant & machinery as per reconstruction scheme)		
(ix)	8% Debentures A/c (34,000 x ₹ 50) Dr.	17,00,000	
	To 10% Debentures A/c (17,000 x ₹ 80)		13,60,000
	To Capital Reduction A/c		3,40,000
	(Being conversion of 8% debentures to 10% debentures at one for every two debentures held by them as per reconstruction scheme)		
(x)	Capital Reduction A/c Dr.	12,30,000	
	To Land & building A/c		3,75,000
	To Profit and Loss A/c		2,15,000
	To Trade receivables A/c		4,50,000
	To Inventories A/c		1,90,000
	(Being amount of Capital Reduction utilized in writing off Profit & loss Dr. bal., Land & building, Current Assets, Inventories through capital reduction account)		

(xi)	Capital Reduction A/c	Dr.	47,73,000	
	To Capital Reserve A/c			47,73,000
	(Being balance in capital reduction account transferred to capital reserve account)			

(ii) **Balance Sheet of M/s Clean Ltd. (as reduced) as on 31.3.2015**

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share Capital	1	62,20,000
	b	Reserves and Surplus	2	47,73,000
2		**Non-current liabilities**		
	a	Long-term Borrowings	3	16,40,000
		Total		**1,26,33,000**
		Assets		
1		**Non-current assets**		
	a	Fixed Assets		
		Tangible Assets	4	71,25,000
	b	Investments		16,50,000
2		**Current assets**		
	a	Inventories	5	7,60,000
	b	Trade Receivables	6	13,50,000
	c	Cash and Cash equivalents		17,48,000
		Total		**1,26,33,000**

Notes to accounts

			₹
1.	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	2,47,000 equity shares of ₹ 10 each		24,70,000
	(out of which 7,000 equity shares have been issued for consideration for other that cash)		
	Preference share capital		
	Issued, subscribed and paid up		
	4,68,750 Preference shares of ₹ 8 each		37,50,000

	(out of which 43,750 equity shares have been issued for consideration for other that cash)		62,20,000
2.	**Reserves and Surplus**		
	Capital Reserve		47,73,000
3.	**Long-term borrowings**		
	Secured		
	20,500 10% Debentures of ₹ 80 each		16,40,000
4.	**Tangible assets**		
	Land & building	75,00,000	
	Adjustment under scheme of reconstruction	(3,75,000)	71,25,000
5.	**Inventories**	9,50,000	
	Adjustment under scheme of reconstruction	(1,90,000)	7,60,000
6.	**Trade receivables**	18,00,000	
	Adjustment under scheme of reconstruction	(4,50,000)	13,50,000

Working Notes:

1. **Cash at Bank Account**

Particulars	₹	*Particulars*	₹
To Balance b/d	3,60,000	By Taxation liability	66,000
To Equity Share capital A/c	16,00,000	By Trade Payables A/c	1,20,000
		By Penalty A/c	26,000
		By Balance c/d (bal. fig.)	17,48,000
	19,60,000		19,60,000

2. **Capital Reduction Account**

Particulars	₹	*Particulars*	₹
To Land & building A/c	3,75,000	By Equity Share Capital A/c	47,20,000
To Machinery A/c	2,15,000	By 9% Preference share capital	8,00,000
To Trade receivables A/c	4,50,000	By 7% Debentures	1,00,000
To Inventories A/c	1,90,000	By Provision for tax	9,000
To Bank	26,000	By Trade Payables (30,000 + 30,000)	60,000
To Capital Reserve (bal. fig.)	47,73,000	By 8% Debentures	3,40,000
	60,29,000		60,29,000

SAP 1(iii) Business Laws, Ethics and Communication Answer key

1.

Sans Recourse: Sans Frais (The Negotiable Instruments Act, 1881):

Sans Recourse: By adding the words 'Sans Recourse' after the endorsement the endorser declines to accept any liability on the instrument of any subsequent party. Sometimes, when an endorser who so excludes his liability as an endorser afterwards becomes the holder of the same instrument. In such a case, all intermediate endorsers are liable to him.

Sans Frais: These words when added at the end of the endorsement, indicate that no expenses should be incurred on account of the bill.

Difference: Any endorser can exclude personal liability by endorsing "sans recourse" i.e. without recourse. However, "Sans Frais" endorsement, indicate that no expenses should be incurred on account of the bill.

2.

Cognizable offences mean the offences which are taken note of by the court for proceedings thereon. Under section 14 AC (1) no court shall take cognizance of any offence punishable under this Act, except:

(a) on a report in writing of the facts constituting such offence;

(b) The report must be made by an Inspector appointed under Section 13.

(c) The report is made with the previous sanction of the Central Provident Fund Commissioner or such other officer as may be authorised by the Central Government, by notification in the Official Gazette, in this behalf,;

Section 14 AC (2) further provides that no court inferior to that of a Presidency Magistrate or a first class Magistrate, shall try any offence under this Act or the Scheme or the Pension Scheme or the Insurance Scheme.

3.

The reasons which lead to unethical behaviour are as follows:

(i) Emphasis on short term results.

This is one of the primary reasons which has led to the downfall of many companies like Enron and Worldcom.

(ii) Ignoring small unethical issues.

It is a known fact that most of the compromises we make are small but however they lead us into committing large infractions. And ignoring minor lapses, lead to bigger and more huge mistakes.

(iii) Economic cycles.

In good times, companies are relaxed in their accounting procedures or disclosures, as there is a pervasive feel-good effect. But when times of hardship follow, then the hit taken by them is almost fatal, as was proved in the Enron case. So companies need to watch out for economic cycles and be vigilant in good times as well as bad.

(iv) Accounting rules.

In the era of globalization and massive cross border flow of capital, accounting rules are changing faster than ever before. The rules have become more complex and it is difficult to identify deviations from these complex set of requirements. The complexity of these principles and rules and the difficulty associated with identifying abuse are reasons which may promote unethical behaviour.

4.

An ethical communication:

- includes all relevant information,
- is true in every sense and is not deceptive in any way.
- accurate and sincere. Avoids language that manipulates, discriminates or exaggerates.
- does not hide negative information behind an optimistic attitude.
- does not state opinions as facts,
- portrays graphic data fairly.

In a nutshell ethical communicators have a "well developed sense of social responsibility".

Discuss whistle blowing.

Answer

Any employee who goes public with information about corporate abuses or negligence is known as a whistle-blower. Corporations and managers legitimately expect employee loyalty. Greed, jealousy, and revenge motivate some whistle-blowers. Some are simply misinformed. Some confuse public interest with private interest. Certainly the community has a right to know about corporate practices that are potentially hazardous, yet courting the whistle-blower too aggressively can be problematic.

5.

(a) The facts of the problem are identical with the facts of a case known as *H.N.D. Mulla Feroze Vs. C.Y. Somaya Julu, J(2004) 55 SCL (AP)* wherein the Andhra Pradesh High Court held that although the petitioner has a legal liability to refund the amount to the appellant, petitioner is not the drawer of the cheque, which was dishonoured and the cheque was also not drawn on an account maintained by him but was drawn on an account maintained by the company. Hence, it was held that the petitioner John could not be said to have committed the offence under Section

138 of the Negotiable Instruments Act, 1881. Therefore is not liable for the cheque but legally liable for the payments for the goods.

(b) Minor being a party to negotiable instrument: According to section 26 of the Negotiable Instruments Act, 1881, every person competent to contract has capacity to incur liability by making, drawing, accepting, endorsing, delivering and negotiating a promissory note, bill of exchange or cheque.

As a minor's agreement is void, he cannot bind himself by becoming a party to a negotiable instrument. But he may draw, endorse, deliver and negotiate such instruments so as to bind all parties except himself.

In view of the provisions of Section 26 explained above, the promissory note executed by Mr. Big and Minion is valid even though a minor is a party to it. Minion, being a minor is not liable; but his immunity from liability does not absolve the other joint promisor, namely Mr. Big from liability *[Sulochana v. Pandiyan Bank Ltd., AIR (1975) Mad. 70]*.

6.

Self Interest Threats: Auditors: Employees:

(i) Self interest threats for finance and accounting professionals working as consultants or auditors are given below:

(a) A financial interest in a client or jointly holding a financial interest with a client.

(b) Undue dependence on total fees from a client,

(c) Having a close business relationship with a client.

(d) Concern about the possibility of losing a client,

(e) Potential employment with a client.

(f) Contingent fees relating to an assurance engagement.

(ii) Self interest threats for finance and accounting professionals working as an employee are given below:

(a) Financial interests, loans and guarantees in the company in which the professional is working.

(b) Incentive compensation arrangements.

(c) Inappropriate personal use of corporate assets.

(d) Concern over employment security.

(e) Commercial pressure from outside the employing organization.

Advance accounts Old Syllabus Ans key

1.a.

Computation of earnings per share

	Earnings	***Shares***	***Earnings per share***
Net profit for the year 20X1	₹ 12,00,000		
Weighted average number of shares outstanding during year 20X1		5,00,000	
Basic earnings per share			₹ 2.40
Number of shares under option		1,00,000	
Number of shares that would have been issued at fair value: (100,000 x 15.00)/20.00	*	(75,000)	
Diluted earnings per share	₹ 12,00,000	5,25,000	₹ 2.29

**The earnings have not been increased as the total number of shares has been increased only by the number of shares (25,000) deemed for the purpose of the computation to have been issued for no consideration{see para 37(b)}*

b.

Swift Limited amortised ₹ 10,00,000 per annum for the first two years i.e. ₹ 20,00,000. The remaining carrying cost can be amortised during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	***Net cash flows ₹***	***Amortisation Ratio***	***Amortisation Amount ₹***
I	-	0.125	10,00,000[3]
II	-	0.125	10,00,000
III	36,00,000	0.180	10,80,000
IV	46,00,000	0.230	13,80,000
V	44,00,000	0.220	13,20,000
VI	40,00,000	0.200	12,00,000
VII	34,00,000	0.170	10,20,000
Total	2,00,00,000	1.000	80,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹ 60,00,000 has been amortised in the ratio of net cash flows arising from the product of Swift Ltd.

Note: The answer has been given on the basis that the patent is renewable and Swift Ltd. got it renewed after expiry of five years

c.

In the books of A Ltd.

Journal Entries (at the time of refund of grant)

) **If the grant is credited to Fixed Assets Account :**

		₹	₹
I	Fixed Assets A/c Dr. To Bank A/c (Being grant refunded)The amount of refund should be ₹ 16 Lakhs	16 lakhs	 16 lakhs

II The balance of fixed assets after two years depreciation will be ₹ 16 lakhs (W.N.1) and after refund of grant it will become (₹16 lakhs + ₹16 lakhs) = ₹ 32 lakhs on which depreciation will be charged for remaining two years. Depreciation = (32-8)/2 = ₹ 12 lakhs p.a. will be charged for next two years.

(2) If the grant is credited to Deferred Grant Account :

As per AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years (₹16 lakhs /4 years) = ₹ 4 lakhs p.a. x 2 years = ₹ 8 lakhs were credited to Profit and Loss Account and ₹ 8 lakhs was the balance of Deferred Grant Account after two years.

Therefore, on refund in the 3rd year, following entry will be passed :

		₹	₹
I	Fixed Assets A/c Dr. To Bank A/c (Being grant refunded)The amount of refund should be ₹ 16 Lakhs	16 lakhs	 16 lakhs

II Deferred grant account will become Nil. The fixed assets will continue to be shown in the books at ₹ 24 lakhs (W.N.2) and depreciation will continue to be charged at`8 lakhs per annumfor the remaining two years.

Working Notes :

1. **Balance of Fixed Assets after two years but before refund (under first alternative)**

   Fixed assets initially recorded in the books = ₹ 40 lakhs – ₹ 16 lakhs = ₹ 24 lakhs

   Depreciation p.a. = (₹ 24 lakhs – ₹ 8 lakhs)/4 years = ₹ 4 lakhs per year

   Value of fixed assets after two years but before refund of grant

   = ₹ 24 lakhs – (₹ 4 lakhs x 2 years) = ₹ 16 lakhs

2. **Balance of Fixed Assets after two years but before refund (under second alternative)**

   Fixed assets initially recorded in the books = ₹ 40 lakhs

   Depreciation p.a. = (₹ 40 lakhs – ₹ 8 lakhs)/4 years = ₹ 8 lakhs per year

   Book value of fixed assets after two years = ₹ 40 lakhs – (₹ 8 lakhs x 2 years)

   = ₹ 24 lakhs

Reference : The students are advised to refer the full text of AS 12 "Accounting for Government Grants".

Note : It is assumed that the question requires the value of fixed assets is to be given after refund of government grant.

d.

As per AS 13 (Revised) "Accounting for Investments", the cost of investment includes acquisition charges such as brokerage, fees and duties. In the present case, Take Ltd. has used borrowed funds for purchasing shares of its subsidiary company Give Ltd. ₹ 4 lakhs interest payable by Take Ltd. to State Bank of India cannot be called as acquisition charges, therefore, cannot be constituted as cost of investment.

Further, as per para 3 of AS 16 "Borrowing Costs", a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Since, shares are ready for its intended use at the time of sale, it cannot be considered as qualifying asset that can enable a company to add the borrowing cost to investments. Therefore, the directors of Take Ltd. cannot capitalise the borrowing cost as part of cost of investment. Rather, it has to be charged to the Statement of Profit and Loss for the year ended 31st March, 2017.

Reference : The students are advised to refer the full text of AS 16 "Borrowing Costs" (issued 2000).

e.

AS 4 (Revised) on Contingencies and Events Occurring after the Balance Sheet Date defines 'events occurring after the balance sheet date' as 'significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors in the case of a company'. The given case is discussed in the light of the above mentioned definition and requirements given in AS 4 (Revised).

In this case the incidence, which was expected to push up cost, became evident after the date of approval of the accounts. So it is not an 'event occurring after the balance sheet date'. However, this may be mentioned in the Report of Approving Authority.

2. a.

In the books of KP

Trading and Profit & Loss Account for the year ended 31st Dec., 20X1

	H.O. ₹	Branch ₹	Total ₹		H.O. ₹	Branch ₹	Total ₹
To Material consumed	34,500	-	34,500	By Sales	2,00,000	65,200	2,65,200
To Wages	1,08,500	-	1,08,500	By Goods Sent to			
To Factory Overheads	39,000	-	39,000	Branch	46,000	–	–
To Opening stock of				By Closing stock			
finished goods	13,000	9,200	22,200	including transit	15,000	9,560	24,560
To Goods from H.O.		46,000					
To Gross Profit c/d	66,000	19,560	85,560				
	2,61,000	74,760	2,89,760		2,61,000	74,760	2,89,760
To Admn. Salaries	13,900	4,000	17,900	By Gross Profit b/d	66,000	19,560	85,560
To Salesmen Salaries	22,500	6,200	28,700				
To Other Admn. & selling							
Overheads	12,500	2,300	14,800				
To Stock Reserve	47	-	47				
To Bonus to Staff	-	156	156				
To Net Profit	17,053	6,904	23,957				
	66,000	19,560	85,560		66,000	19,560	85,560

Balance Sheet as on 31st Dec., 20X1

		₹	H.O. ₹	Branch ₹	Total ₹		H.O. ₹	Branch ₹	Total ₹
Capital			50,000	-	50,000	Fixed Assets	-	-	-
Profit :	H.O.	17,053				Current Assets:			
	Branch	6,904	23,957		23,957	Raw material Finished	2,300		2,300
Trade Creditors			13,000		13,000	Goods	15,000	9,560	23,313*
Bonus Payable				156	156	(Less Stock Res.)			
H.O. Account*				10,404		Debtors	37,000	-	37,000
Stock Reserve			1,247			Cash (including transit item)	23,500	1,000	24,500
						Branch A/c	10,404*		
			88,204	10,560	87,113		88,204	10,560	87,113

*9,560 × 100/115 i.e., (8,313 + 15,000) = ₹ 23,313

** (5,000 + 6,904) – 1500 = ₹ 10,404.

b.

As per the information given in the question, buy-back of 25,000 shares @ ₹ 20 , as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

			Debit (₹)	*Credit (₹)*
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account			5,00,000
	(Being buy back of 25,000 equity shares of ₹ 10 each @ ₹ 20 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account			5,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of Complicated Ltd.
as on 1st April, 2016

Particulars			*Note No*	*Amount* ₹
EQUITY AND LIABILITIES				
1	**Shareholders' funds**			
	(a)	Share capital	1	11,00,000
	(b)	Reserves and Surplus	2	22,25,000
2	**Non-current liabilities**			
	(a)	Long-term borrowings	3	28,75,000
3	**Current liabilities**			
	(a)	Other current liabilities	4	19,50,000
		Total		81,50,000
ASSETS				
1	**Non-current assets**			
	(a)	Fixed assets		46,50,000
2	Current assets (40,00,000-5,00,000)			35,00,000
		Total		81,50,000

Notes to Accounts

			₹	₹
1.	Share Capital			
	Equity share capital			
	1,10,000 Equity shares of ₹10 each			11,00,000
2.	Reserves and Surplus			
	Profit and Loss A/c		1,25,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Securities premium	2,50,000		
	Less: Utilization for share buy-back	(2,50,000)	-	
	Share Option Outstanding Account		4,00,000	
	Capital Reserve		2,00,000	
	Capital Redemption Reserve		2,50,000	22,25,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	Other Current Liabilities			
	Current maturities of long term borrowings		16,50,000	
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	19,50,000

3. a.

Journal Entries

Particulars		*Debit* (₹)	*Credit* (₹)
First debentures A/c	Dr.	3,00,000	
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	90,000	
To A's A/c			6,90,000
(Being A's total liability ascertained)			
A's A/c	Dr.	2,10,000	
To Capital reduction A/c			2,10,000
(Being cancellation of debt upto ₹ 2,10,000)			
Bank A/c	Dr.	30,000	
To A's A/c			30,000
(Being cash received in course of settlement)			
A's A/c	Dr.	5,10,000	
To First debentures A/c			5,10,000
(Being liability of A, discharged against first debentures)			
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	60,000	
To B's A/c			3,60,000
(Being B's liability ascertained)			
B's A/c	Dr.	3,60,000	
To Bank A/c			90,000
To Capital reduction A/c			2,70,000
(Being B's liability discharged)			
Unsecured trade payables A/c	Dr.	3,00,000	
To Equity share capital A/c			1,12,500
To Loan (Unsecured) A/c			75,000
To Capital reduction A/c			1,12,500
(Being settlement of unsecured creditors)			
Share call A/c	Dr.	1,80,000	
To Share capital A/c			1,80,000
(Being final call money due)			
Bank A/c	Dr.	1,80,000	
To Share call A/c			1,80,000
(Being final call money received)			
Share capital A/c (Face value ₹ 60)	Dr.	3,60,000	
To Share capital (Face value ₹ 7.50)			45,000
To Capital reduction A/c			3,15,000
(Being share capital reduced to ₹ 7.50 each)			
Capital reduction A/c	Dr.	8,70,000	
To Profit and loss A/c			8,70,000
(Being reconstruction surplus used to write off losses)			

Working Notes:

1.	Settlement of claim of remaining unsecured creditors			₹
	75% of ₹ 3,00,000			2,25,000
	Considering their claim for share of ₹ 60 each			
	2,25,000/60 =3,750 shares			
	Less: Number of shares to be issued			
	3,750 x 4= 15,000 shares of ₹ 7.5 each			
	Total value= 15,000 x 7.50			(1,12,500)
	Transferred to Capital reduction A/c			1,12,500

2. **Ascertainment of profit and loss account's debit balance at the time of reconstruction.**

	₹	₹
Asset		
Fixed assets	3,90,000	
Cash	2,70,000	6,60,000
Less: Capital & Liabilities:		
Share capital	1,80,000	
1^{st} Debenture	3,00,000	
2^{nd} Debenture	6,00,000	
Unsecured *trade payables*	4,50,000	(15,30,000)
Profit and loss A/c (Debit balance)		(8,70,000)

b.

X will not be liable since he transferred his shares prior to one year preceding the date of winding up. The amount of ₹ 6,000 outstanding on 1st May 2016 will have to be contributed by A, B, C & D in the ratio of number of shares held by them, *i.e.* in the ratio of 10:15:3:2; thus A will have to contribute ₹ 2,000: B ₹ 3,000, C ₹ 600 and D ₹ 400. Similarly, the further debts incurred between 1st May, 2016 and 1st July 2016, viz. ₹ 1,500 for which A is not liable will be contributed by B, C and D in the ratio of 15:3:2 B will have to contribute₹ 1,125. C will have to contribute ₹ 255 and D will contribute ₹ 150. The further increase from ₹ 7,500 to ₹ 8,000, viz. ₹ 500 occurring between 1st July and 1st Nov. will be shared by C and D who will be liable for ₹ 300 and ₹ 200 respectively. The increase between 1st Nov. and 1st Feb., is solely the responsibility of D.Against D's liability of ₹ 2,250, he can be called upon to pay ₹ 800, the loss of ₹ 1,450 will have to be suffered by these creditors.

The following statement makes the position clear:

Statement of Liabilities of B list contributors

Creditors Outstanding on the date of ceasing to be member	*A 1,000 Shares ₹*	*B 1,500 Shares ₹*	*C 300 Shares ₹*	*D 200 Shares ₹*	*Amount to be paid to the Creditors ₹*
(1) 6,000	2,000	3,000	600	400	6,000
(2) 1,500	-	1,125	225	150	1,500
(3) 500	-	-	300	200	500
(4) 1,500	-	-	-	1,500	50*
Total (a)	2,000	4,125	1,125	2,250	8,050
(b) maximum liability on shares held	4,000	6,000	1,200	800	
(c) Amount paid (a) or(b) whichever is lower	2,000	4,125	1,125	800	

4. a.

(i) Capital Funds –

Tier I :	***₹ in crore***
Equity Share Capital	600
Statutory Reserve	470
Capital Reserve (arising out of sale of assets)	105
Less: Profit & Loss (Dr. bal.)	(30)
	1,145
Capital Funds - Tier II :	
Capital Reserve (arising out of revaluation of assets)	25
Less: Discount to the extent of 55%	(13.75)
	11.25

(ii) Risk Adjusted Assets

Funded Risk Assets	**₹ in crore**	**Percentage weight**	**Amount ₹ in crore**
Cash Balance with RBI	35.50	0	—
Balances with other Banks	15	20	3
Claims on banks	52.50	20	10.50
Other Investments	70	100	70
Loans and Advances:			
(i) guaranteed by government	22.50	0	—
(ii) guaranteed by DICGC/ECGC	110	50	55

(iii)	Others	9,365	100	9,365
	Premises, furniture and fixtures	92.50	100	92.50
	Leased Assets	40	100	40
				9,636

Off-Balance Sheet Item		***₹ in Crore***	***Credit Conversion Factor***	***₹ In Crore***
(i)	Acceptances, Endorsements and Letters of credit	1,100	100	1,100
(ii)	Guarantees and other obligations	6,200	100	6,200
				7,300

Risk Weighted Assets Ratio: $\dfrac{\text{Capital Funds (Tier I \& Tier II)}}{\text{Risk Adjusted Assets + off Balance sheet items}} \times 100$

= (1,145 +11.25)/ (9,636 +7,300)

= (1,156.25 /16,936) x 100 = 6.83% (rounded off)

b.

Date	*Particulars*		₹	₹
31.3.20X2	Employees compensation expense A/c	Dr.	14,25,000	
	To ESOS outstanding A/c			14,25,000
	(Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,000 employees at a discount of ₹ 30 each, amortised on straight line basis over vesting years (Refer W.N.)			
	Profit and Loss A/c	Dr.	14,25,000	
	To Employees compensation expenses A/c			14,25,000
	(Being expenses transferred to profit and Loss A/c)			
31.3.20X3	Employees compensation expenses A/c	Dr.	3,95,000	
	To ESOS outstanding A/c			3,95,000
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)			
	Profit and Loss A/c	Dr.	3,95,000	
	To Employees compensation expenses A/c			3,95,000
	(Being expenses transferred to profit and Loss A/c)			
31.3.20X4	Employees compensation Expenses A/c	Dr.	8,05,000	
	To ESOS outstanding A/c			8,05,000
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)			

	Profit and Loss A/c		8,05,000	
	To Employees compensation expenses A/c			8,05,000
	(Being expenses transferred to profit and Loss A/c)			
20X4-X5	Bank A/c (85,000 × ₹ 20)	Dr.	17,00,000	
	ESOS outstanding A/c [(26,25,000/87,500) x 85,000]	Dr.	25,50,000	
	To Equity share capital (85,000 x ₹ 10)			8,50,000
	To Securities premium A/c (85,000 x ₹ 40)			34,00,000
	(Being 85,000 options exercised at an exercise price of ₹ 50 each)			
31.3.20X5	ESOS outstanding A/c	Dr.	75,000	
	To General Reserve A/c			75,000
	(Being ESOS outstanding A/c on lapse of 2,500 options at the end of exercise of option period transferred to General Reserve A/c)			

Working Note:

Statement showing compensation expense to be recognized at the end of:

Particulars	Year 1 (31.3.20X2)	Year 2 (31.3.20X3)	Year 3 (31.3.20X4)
Number of options expected to vest	95,000 options	91,000 options	87,500 options
Total compensation expense accrued (50-20)	₹ 28,50,000	₹ 27,30,000	₹ 26,25,000
Compensation expense of the year	28,50,000 x 1/2 = ₹ 14,25,000	27,30,000 x 2/3 = ₹ 18,20,000	₹ 26,25,000
Compensation expense recognized previously	Nil	₹ 14,25,000	₹ 18,20,000
Compensation expenses to be recognized for the year	₹ 14,25,000	₹ 3,95,000	₹ 8,05,000

Reference: The students are advised to refer the bare text of The Guidance Note on Employee Share Based Payments.

5.a

Statement showing liability of underwriters

	Particulars	*Basis*	*White*	*Black*
A.	Gross Liability [No. of Shares)	1:1	15,00,000	15,00,000

B.	*Less:* Marked Applications {Net of firm underwriting}		(15,00,000)	(10,20,000)
C.	Balance [A-B]		-	4,80,000
D	*Less:* Unmarked Applications	1:1	(1,20,000)	(1,20,000)
E	Balance [C-D]		(1,20,000)	3,60,000
F	*Less:* Firm Underwriting		(60,000)	(60,000)
G	Balance		(1,80,000)	3,00,000
H	Credit for White 's Oversubscription		1,80,000	(1,80,000)
I	Net Liability		-	1,20,000
J	*Add:* Firm Underwriting		60,000	60,000
K	Total Liability [No. Shares]		60,000	1,80,000

Journal Entries

2017				
Jan 31	Bank A/c	Dr.	72,00,000	
	To Equity Share Application A/c			72,00,000
	(Being application money received @ ₹ 2.50 per share on 28,80,000 shares)			
March 31	Equity Share Application A/c	Dr.	72,00,000	
	To Equity Share Capital A/c			72,00,000
	(Being the transfer of application money to share capital on 28,80,000 shares vide Board's Resolution)			
March 31	Equity Share Allotment A/c (28,80,000 x ₹ 3)	Dr.	86,40,000	
	To Equity Share Capital A/c (28,80,000x ₹ 2.5)			72,00,000
	To Securities Premium A/c (28,80,000 x ₹ 0.5)			14,40,000
	(Being allotment money due on 28,80,000 shares allotted to public)			
	Black (1,20,000 x ₹ 5.5)	Dr.	6,60,000	
	To Equity Share Capital A/c (1,20,000 x ₹ 5)			6,00,000
	To Securities Premium A/c (1,20,000 x ₹ 0.5)			60,000

	(Being the application and allotted money due on net liability of underwriter i.e. 1,20,000 shares)			
March 31	Bank A/c	Dr.	92,82,000	
	To Equity Share Allotment A/c [(28,80,000 – 6,000) x ₹ 3]			86,22,000
	To Black (1,20,000 x ₹ 5.5)			6,60,000
	(Being the receipt of money due on allotment except from the allottee for 6,000 shares)			
March 31	Underwriting Commission A/c	Dr.	12,60,000	
	To Black A/c			6,30,000
	To White A/c			6,30,000
	(Being commission @ 4 % on issue price of ₹ 10.50 for ₹30 lakh shares payable to underwriters)			
March 31	Black A/c		6,30,000	
	White A/c		6,30,000	
	To Bank A/c			12,60,000
	(Being commission paid to underwriters)			
June 30	Equity Share Capital A/c (6,000 x 5)	Dr.	30,000	
	Securities Premium A/c (6,000 x 0.5)	Dr.	3,000	
	To Share Allotment A/c (6,000 x 3)			18,000
	To Forfeited Shares A/c (6,000 x 2.5)			15,000
	(Being 6,000 shares forfeited vide Board's Resolution)			
June 30	Bank A/c (6,000 x ₹ 4)	Dr.	24,000	
	Forfeited Shares A/c	Dr.	6,000	
	To Equity Share Capital A/c (6,000 x ₹ 5)			30,000
	(Being the reissue of 6,000 shares @ ₹ 4 as ₹ 5 paid up at par)			
	Forfeited Shares A/c (15,000 – 6,000)	Dr.	9,000	
	To Capital Reserve A/c			9,000
	(Being the transfer of profit on reissue)			

b.

Liquidators' Final Statement of Account

Receipts	₹	*Payments*	₹
Cash	4,13,000	Return to contributors:	
Realisation from:		Arrears of Preference dividend	33,000
Calls in arrears	10,000	Preference shareholders	3,00,000
Final call of ₹ 5 per		Calls in advance	5,000
equity share of ₹ 50 each (₹ 5 × 1,000) See WN below	5,000	Equity shareholders of ₹ 100 each (3,000 × ₹ 30)	90,000
	4,28,000		4,28,000

Working Note:

		₹
Cash account balance		4,13,000
Less: Payment for dividend	33,000	
Preference shareholders	3,00,000	
Calls in advance	5,000	(3,38,000)
		75,000
Add: Calls in arrears		10,000
		85,000
Add: Amount to be received from equity shareholders of ₹ 50 each (1,000 × 20)		20,000
Amount disposable		1,05,000

Number of equivalent equity shares:

3,000 shares of ₹ 100 each = 6,000 shares of ₹ 50 each

1,000 shares of ₹ 50 each = 1,000 shares of ₹ 50 each

= 7,000 shares of ₹ 50 each

$$\text{Final payment to equity shareholders} = \frac{\text{Amount left for distribution}}{\text{Total number of equivalent equity shares}}$$

= ₹ 1,05,000 / 7,000 shares = ₹ 15 per share to equity shareholders of ₹ 50 each.

Therefore for equity shareholders of ₹ 100 each $\left(15 \times \frac{100}{50}\right)$

= ₹ 30 per share to equity shareholders of ₹ 100 each.

Calls in advance must be paid first, so as to pay the shareholders on pro rata basis. Equity shareholders of ₹ 50 each have to pay ₹ 20 and receive ₹ 15 each. As a result, they are required to pay net ₹ 5 per share.

C.

In the books of English Firm (Head Office in New York)

Chennai Branch Profit and Loss Account

for the year ended 31st December, 2012

	$		$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		23,625

Balance Sheet of Chennai Branch

as on 31st December, 2012

Liabilities	$	$	Assets	$
Head Office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		44,400

Working Note:

Calculation of Exchange Translation Loss

Chennai Branch Trial Balance (converted in $)

as on 31st December, 2012

	Dr.	Cr.	Conversion	Dr.	Cr.
	₹	₹	Rate	($)	($)
Stock on 1st Jan., 2012	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	36,31,400		73,775	73,775