SAP 2 Inter Old Accounting Answer Key

1 a.

(a)	Amount of foreseeable loss	***(₹ in lakhs)***
	Total cost of construction (500 + 105 + 495)	1,100
	Less: Total contract price	(1,000)
	Total foreseeable loss to be recognised as expense	100

According AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

(b)	Contract work-in-progress i.e. cost incurred to date are ₹ 605 lakhs	***(₹ in lakhs)***
	Work certified	500
	Work not certified	105
		605

This is 55% (605/1,100 × 100) of total costs of construction.

(c) Proportion of total contract value recognised as revenue:

55% of ₹ 1,000 lakhs = ₹ 550 lakhs

(d) Amount due from/to customers = (Contract costs + Recognised profits · Recognised

Losses) – (Progress payments received + Progress payments to be received)

= (605 + Nil – 100) – (400 + 140) ₹ in lakhs

= [505 – 540] ₹ in lakhs

Amount due to customers = ₹ 35 lakhs

The amount of ₹ 35 lakhs will be shown in the balance sheet as liability.

(e) The relevant disclosures under AS 7 are given below:

	₹ in lakhs
Contract revenue	**550**
Contract expenses	605
Recognised profits less recognised losses	(100)
Progress billings ₹ (400 + 140)	540
Retentions (billed but not received from contractee)	140
Gross amount due to customers	35

1 b.

As per AS 9 "Revenue Recognition", "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of Rs. 5 lakhs should not be recognized in the books for the year ended 31st March, 2017. Thus the contention of accountant is incorrect. However, if the agents have agreed to pay the amount of interest and there is an element of certainty associated with these receipts, the accountant is correct regarding booking of Rs. 5 lakhs as interest amount.

1 c

The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 on Accounting for Amalgamation.

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:

(a) names and general nature of business of the amalgamating companies;

(b) the effective date of amalgamation for accounting purpose;

(c) the method of accounting used to reflect the amalgamation; and

(d) particulars of the scheme sanctioned under a statute.

For amalgamations accounted under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the amalgamation:

(a) description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and

(b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations, accounted under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation;

(a) consideration for the amalgamation and a description of the consideration paid or contingently payable; and

(b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

2.

Trading and Profit and Loss Account of Mr. Shiv Kumar for the year ended 31st March, 2017

	₹		₹
To Opening inventory (balancing figure)	80,000	By Sales (3,20,000*× 100/80)	4,00,000
		By Closing inventory	40,000
To Purchases (1,92,000x100/80)	2,40,000		
To Gross profit c/d @ 30% on sales	1,20,000		
	4,40,000		4,40,000
To Miscellaneous expenses (₹ 80,000 – ₹ 8,000 + ₹ 10,000)	82,000	By Gross profit b/d	1,20,000
		By Miscellaneous receipts	20,000
		By Net loss transferred to Capital A/c (b.f.)	25,840
To Depreciation: Building ₹ 36,000 Furniture ₹ 7,800 (₹6,800+₹1,000) Motor Car ₹ 16,000	59,800		
To Loss on sale of furniture	11,000		
To Bad debts	8,000		
To Provision for doubtful debts	5,040		
	1,65,840		1,65,840

Total Sales (80,000 x $\frac{100}{20}$)-Cash Sales (80,000)

Balance Sheet of Mr. Shivkumar as on 31st March, 2017

Liabilities	₹	₹	Assets	₹	₹
Capital as on 1st April, 2016		7,16,000	Building	3,20,000	
			Add: Addition during the year	40,000	
Profit and Loss A/c Opening balance	40,000		Less: Provision for depreciation	3,60,000	
				(36,000)	3,24,000
Less: Loss for the year	(25,840)	14,160	Furniture	60,000	
			Less: Sold during the year	(20,000)	
Sundry creditors		1,12,000			
Bills payable		16,000		40,000	

Outstanding salary		10,000	Add: Addition during the year	28,000 68,000	
			Less: Depreciation	(6,800)	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	(16,000)	64,000
			Inventory in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	(5,040)	2,46,960
			Bills receivable		28,000
			Cash in hand and at bank		1,04,000
		8,68,160			8,68,160

(i) **Sundry Debtors Account**

	₹		₹
To Balance b/d	1,60,000	By Cash/Bank A/c	2,00,000
To Sales A/c (credit)	3,20,000	By Bills Receivable A/c	20,000
		By Bad debts A/c	8,000
		By Balance c/d (bal. fig.)	2,52,000
	4,80,000		4,80,000

(ii) **Sundry Creditors Account**

	₹		₹
To Cash/Bank A/c	1,84,000	By Balance b/d	1,20,000
To Bills Payable A/c	16,000	By Purchases A/c	1,92,000
To Balance c/d (bal. fig.)	1,12,000		
	3,12,000		3,12,000

(iii) **Bills Receivable Account**

	₹		₹
To Balance b/d	32,000	By Cash/ Bank A/c(bal. fig.)	24,000
To Sundry Debtors A/c	20,000	By Balance c/d	28,000
	52,000		52,000

(iv) **Bills Payable Account**

	₹		₹
To Cash/Bank A/c(bal. fig.)	28,000	By Balance b/d	28,000
To Balance c/d	16,000	By Sundry Creditors A/c	16,000
	44,000		44,000

(v) **Furniture Account**

	₹		₹
To Balance b/d	60,000	By Bank/Cash A/c	8,000
To Bank A/c (b.f.)	28,000	By Depreciation A/c (on furniture sold)	1,000
		By Profit and loss A/c (loss on sale) (20,000 – 1,000 – 8,000)	11,000
		By Depreciation A/c (68,000 x 10%)	6,800
		By Balance c/d (68,000 – 6,800)	61,200
	88,000		88,000

(v) **Cash/Bank Account**

	₹		₹
To Balance b/d	1,80,000	By Misc. trade expenses A/c	80,000
To Miscellaneous receipts A/c	20,000	By Purchases A/c	48,000
To Sundry debtors A/c	2,00,000	By Furniture A/c	28,000
To Sales A/c	80,000	By Sundry creditors A/c	1,84,000
To Furniture A/c (sale)	8,000	By Bills payable A/c	28,000
To Bills receivable A/c	24,000	By Building A/c (3,60,000 – 3,20,000)	40,000
		By Balance c/d	1,04,000
	5,12,000		5,12,000

(vii) **Opening Balance Sheet of Mr. Shivkumar as on 31st March, 2016**

Liabilities	₹	Assets	₹
Capital (balancing figure)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry Creditors	1,20,000	Motor car	80,000
Bills Payable	28,000	Inventory in trade	80,000
Outstanding salary	8,000	Sundry Debtors	1,60,000
		Bills Receivable	32,000
		Cash in hand and at bank	1,80,000
	9,12,000		9,12,000

3 a.

LEDGER OF BETTER LIMITED

Fixed Assets Account

	₹		₹
To Balance b/d	15,00,000	By Realisation A/c (transfer)	15,00,000

Current Assets Account

	₹		₹
To Balance b/d	5,00,000	By Realisation A/c (transfer)	5,00,000

Liabilities Account

	₹		₹
To Realisation A/c	2,00,000	By Balance b/d	2,00,000

Realisation Account

	₹		₹
To Fixed Assets A/c	15,00,000	By Liabilities A/c	2,00,000
" Current Assets A/c	5,00,000	" Best Limited (Purchase Consideration)	15,00,000
		" Shareholders' A/c (Loss on Realisation)	3,00,000
	20,00,000		20,00,000

Share Capital Account

	₹		₹
To Sundry shareholders A/c - (transfer)	15,00,000	By Balance b/d	10,00,000
		" Reserves & Surplus A/c (Bonus issue)	5,00,000
	15,00,000		15,00,000

Reserves & Surplus Account

	₹		₹
To Share Capital (Bonus issue)	5,00,000	By Balance b/d	8,00,000
" Sundry Shareholders	3,00,000		
	8,00,000		8,00,000

Best Ltd.

	₹		₹
To Realisation A/c - Purchase Consideration	15,00,000	By Shares in Best Ltd	15,00,000
	15,00,000		15,00,000

Shares in Best Ltd.

	₹		₹
To Best Ltd.	15,00,000	By Sundry Shareholders A/c	15,00,000

Sundry Shareholders Account

	₹		₹
To Realisation A/c (Loss)	3,00,000	By Share Capital A/c	15,00,000
" Share in Best Ltd.	15,00,000	" Reserves & Surplus A/c	3,00,000
	18,00,000		18,00,000

Journal of Best Ltd.

20X1			Dr. ₹	Cr. ₹
Apr. 1	Fixed Assets A/c	Dr.	15,00,000	
	Current Assets A/c	Dr.	5,00,000	
	To Liabilities A/c			2,00,000
	To Liquidator of Better Ltd.			15,00,000
	To Capital Reserve A/c			3,00,000
	(Assets & Liabilities of Better Ltd. taken over for an agreed purchase consideration of ₹ 15,00,000 as per agreement dated....)			
	Liquidator of Better Ltd.	Dr.	15,00,000	
	To Share Capital A/c			10,00,000
	To Securities Premium A/c			5,00,000
	(Discharge of Purchase consideration by the issue of equity shares of ₹ 10,00,000 at a premium of ₹ 50 per share as per agreement)			
	Trade payables A/c	Dr.	1,00,000	
	To Trade receivables A/c			1,00,000
	(Amount due from Better Ltd., and included in its creditors taken over, cancelled against own Trade receivables)			
	Capital Reserve A/c	Dr.	10,000	
	To Current Asset (Stock) A/c			10,000
	(Unrealized profit on stock included in current assets of Better Ltd. written off to Reserve Account)			

Working Note :

Calculation of Purchase consideration:

Issued Capital of Better Ltd. (after bonus issue) at ₹ 100 per share₹ 15,00,000

Purchase consideration has been discharged by Best Ltd. by the issue of shares for ₹ 10,00,000 at a premium of ₹ 5,00,000. This gives the value of ₹ 150 per share.

Balance Sheet of Best Ltd. (After absorption)

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	30,00,000
	b	Reserves and Surplus	2	17,90,000
2		**Current liabilities**		21,00,000
		Total		**68,90,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	3	40,00,000
	b	Non-current investments		5,00,000
2		**Current assets**		23,90,000
		Total		**68,90,000**

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
Issued & Subscribed		
30,000 shares of ₹ 100 (of the above 10,000 shares have been issued for consideration other than cash)		30,00,000
Total		**30,00,000**
2 Reserves and Surplus		
Capital Reserve (3,00,000 – 10,000)		2,90,000
Securities Premium		5,00,000
Other reserves and surplus		10,00,000
Total		**17,90,000**
3 Tangible assets		
Fixed Assets	25,00,000	
Acquired during the year	15,00,000	40,00,000
Total		**40,00,000**

3 b.

Statement showing cash value of the machine acquired on hire-purchase basis

	Instalment Amount	*Interest @ 5% half yearly (10% p.a.) = 5/105 = 1/21 (in each instalment)*	*Principal Amount (in each instalment)*
	₹	₹	₹
5th Instalment	6,000	286	5,714
Less: Interest	(286)		
	5,714		
Add: 4th Instalment	6,000		
	11,714	558	5,442
Less: Interest	(558)		(11,156–5,714)
	11,156		
Add: 3rd instalment	6,000		
	17,156	817	5,183
Less: Interest	(817)		(16,339–11,156)
	16,339		
Add: 2nd instalment	6,000		
	22,339	1,063	4,937
Less: Interest	(1,063)		(21,276–16,339)
	21,276		
Add: 1st instalment	6,000		
	27,276	1,299	4,701
Less: Interest	(1,299)		(25,977–21,276)
	25,977	4,023	25,977

The cash purchase price of machinery is ₹ 25,977.

4 a.

(a) Balance Sheet of Kalyan Ltd. as at 31st March, 2016

		Note	₹
I	**EQUITY AND LIABILITIES:**		
(1)	(a) Share Capital	1	80,00,000
	(b) Reserves and Surplus	2	49,32,212
(2)	**Non-current Liabilities**		
	Long term Borrowings-Secured Borrowings – Terms Loans		20,00,000
(3)	**Current Liabilities**		
	(a) Trade Payables	-	22,90,000
	(b) Other current liabilities - Loan from other parties		4,00,000
	(c) Short-term Provisions	3	11,11,788
	Total		**1,87,34,000**
II	**ASSETS**		
(1)	**Non-current Assets**		
	(a) Fixed Assets:		
	(i) Tangible Assets	4	1,03,00,000
	(ii) Capital WIP		4,00,000
	(b) Non- current Investments		4,50,000
(2)	**Current Assets:**		
	(a) Inventories	5	24,00,000
	(b) Trade Receivables	6	24,10,000
	(c) Cash and Cash Equivalents		19,20,000
	(d) Short-term Loans and Advances	7	8,54,000
	Total		**1,87,34,000**

Notes to accounts

			(₹)
1.	**Share Capital**		
	Authorized, Issued, subscribed & called up		
	60,000, Equity Shares of ₹ 100 each	60,00,000	
	20,000 10% Redeemable Preference Shares of 100 each	20,00,000	**80,00,000**
2.	**Reserves and Surplus**		
	Securities Premium Account	9,50,000	
	General reserve	31,00,000	
	Profit & Loss Balance		
	Opening balance		
	Profit for the period 16,00,000		
	Less: Miscellaneous Expenditure		
	written off (1,16,000)		
	14,84,000		
	***Less*: Appropriations**		
	Proposed dividend (5,00,000)		
	Dividend distribution tax (1,01,788)	8,82,212	**49,32,212**
3.	**Short-term provisions**		
	Provision for taxation	5,10,000	
	Proposed Dividend	5,00,000	
	Dividend Distribution tax [W.N]	1,01,788	**11,11,788**
4.	**Tangible assets**		
	Fixed Assets		
	Opening balance	1,13,00,000	

	Less: Depreciation	(10,00,000)	
	Closing balance		1,03,00,000
5.	**Inventories**		
	Finished Goods	15,00,000	
	Stores	8,00,000	
	Loose Tools	1,00,000	**24,00,000**
6.	**Trade Receivables**		
	Trade receivables	24,50,000	
	Less: Provision for Doubtful Debts	(40,000)	24,10,000
7.	**Short term loans & Advances**		
	Staff Advances	1,10,000	
	Other Advances	7,44,000	**8,54,000**

Working Note:

Calculation of Dividend distribution tax

(i) Grossing-up of dividend:

		₹
Dividend distributed by Kalyan Ltd.		
Equity shares dividend	3,00,000	
Preference share dividend	2,00,000	5,00,000
Add: Increase for the purpose of grossing up of dividend 5,00,000 x [15 /(100-15)]		88,235
Gross dividend		5,88,235

(ii) Dividend distribution tax @ 17.304% 1,01,788

(b) Computation of effective capital:

	Where Star Ltd. is a non-investment company ₹	*Where Star Ltd. is an investment company* ₹
Paid-up share capital —		
45,000, 14% Preference shares	45,00,000	45,00,000
3,60,000 Equity shares	2,88,00,000	2,88,00,000
Capital reserves	1,35,000	1,35,000
Securities premium	1,50,000	1,50,000
15% Debentures	1,95,00,000	1,95,00,000
Public Deposits	11,10,000	11,10,000
(A)	5,41,95,000	5,41,95,000
Investments	2,25,00,000	—
Profit and Loss account (Dr. balance)	45,75,000	45,75,000
(B)	2,70,75,000	45,75,000
Effective capital (A–B)	2,71,20,000	4,96,20,000

4 b.

Journal Entry

	₹	₹
B's Capital A/c Dr.	60,000	
To A's Capital A/c		60,000
(Being the adjusting entry for goodwill, passed due to change in profit and loss sharing ratio, through capital accounts of partners)		

Working Notes:

1. Calculation of Goodwill

	₹.
Profit for the year 2007	1,50,000
Profit for the year 2008	2,50,000
Profit for the year 2009	2,00,000
Total profit of 3 years	6,00,000

Average Profit = $\frac{6,00,000}{3}$ = ₹ 2,00,000

Goodwill = ₹2,00,000 × 2 = ₹4,00,000

2. Effect of change in Profit Sharing Ratio

Old ratio of A and B = 3 : 1

New ratio of A and B = 3 : 2

Gaining Ratio = New Ratio – Old Ratio

For A = $\frac{3}{5} - \frac{3}{4} = \frac{12-15}{20} = \frac{3}{20}$ i.e. A loses by $\frac{3}{20}$

For B = $\frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$ i.e. B gains by $\frac{3}{20}$

3. Amount of compensation payable by B to A

$\frac{3}{20}$ × ₹ 4,00,000 = ₹ 60,000

Journal Entries

31st March, 2013

			₹	₹
1	Land and Building	Dr.	2,00,000	
	To Revaluation A/c			2,00,000
2.	Revaluation A/c	Dr.	46,500	
	To Plants and Machinery			46,500
3	Revaluation A/c	Dr	3,500	
	To Provision for bad debts			2,000
	[(₹ 2,00,000 x 4%) - ₹ 6000]			
	To Provision for Outstanding repair bills			1,500
4	Pathak's Capital A/c	Dr.	70,000	
	Ranjeet's Capital A/c	Dr.	30,000	
	To Quereshi's Capital A/c			1,00,000
5	Revaluation A/c	Dr.	1,50,000	
	To Pathak's Capital A/c			70,000
	To Quereshi's Capital A/c			50,000
	To Ranjeet's Capital A/c			30,000
6	General reserve A/c	Dr.	2,25,000	
	To Pathak's Capital A/c			1,05,000
	To Quereshi's Capital A/c			75,000
	To Ranjeet's Capital A/c			45,000
7	Quereshi's Capital A/c	Dr.	8,45,000	
	To Bank A/c			4,22,500
	To Quereshi's Loan A/c			4,22,500
8	Patents	Dr.	20,000	
	Cash A/c	Dr.	3,80,000	
	To Swamy's Capital A/c			4,00,000
9	Swamy's Capital A/c (₹ 3,00,000/4)	Dr.	75,000	
	To Pathak's Capital A/c			60,000
	To Ranjeet's Capital A/c			15,000

(b) **Capital Accounts of partners**

	Amount					*Amount*			
	Pathak	*Quereshi*	*Ranjeet*	*Swamy*		*Pathak*	*Quereshi*	*Ranjeet*	*Swamy*
31.3.13					31.3.13				
To Quereshi	70,000		30,000		By Bal. b/d	8,50,000	6,20,000	3,70,000	
					By general reserve	1,05,000	75,000	45,000	
To Bank A/c		4,22,500			By Pathak & Ranjeet		1,00,000		
To Loan A/c		4,22,500			By Revaluation A/c	70,000	50,000	30,000	
To Bal. c/d	9,55,000		4,15,000						
	10,25,000	8,45,000	4,45,000			10,25,000	8,45,000	4,45,000	
1.4.13					1.4.13				
To Pathak				60,000	By Bal. b/d	9,55,000		4,15,000	
To Ranjeet				15,000	By Patents				20,000
To Bal. c/d	10,15,000		4,30,000	3,25,000	By Cash				3,80,000
					By Swamy	60,000		15,000	
	10,15,000		4,30,000	4,00,000		10,15,000		4,30,000	4,00,000

Working Notes:

1. Calculation of Gaining ratio after retirement of Quereshi on 31st March, 2013

	Pathak :	Quereshi :	Ranjeet		Pathak : Ranjeet
Old Ratio	7/15 :	5/15 :	3/15	New Ratio	7/10 : 3/10

Gain of Pathak New Ratio - Old Ratio

7/10 - 7 / 15

(105 – 70) / 150

35 / 150

Gain of Ranjeet 3/10 – 3/15 = (45 – 30)/150 = 15/150

Gaining Ratio = 35 : 15 = 7 : 3

2. Calculation of Sacrificing ratio of Pathak and Ranjeet at time of admission of Swamy

1st April, 2013 *7:3 (ratio between old partners)*

New ratio 2:1:1

$$\frac{2}{4}-\frac{7}{10} \qquad \frac{1}{4}-\frac{3}{10}$$

$$\frac{10-14}{20} \qquad \frac{5-6}{20}$$

$$=\frac{4}{20} \qquad \frac{1}{20}$$

Sacrificing ratio 4 : 1

6 a.

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.15 (15 Months)

	Total (₹)	*Ratio*	*Pre* (₹)	*Post* (₹)
Gross profit	1,40,40,000	1:8	15,60,000	1,24,80,000
Less: Salaries	23,40,000	1:12	1,80,000	21,60,000
Depreciation	3,60,000	1:4	72,000	2,88,000
Advertisement	14,04,000	1:8	1,56,000	12,48,000
Discount	23,40,000	1:8	2,60,000	20,80,000
Managing director's remuneration	1,80,000	Post	-	1,80,000
Office cum showroom rent	14,40,000	Actual	1,80,000	12,60,000
Miscellaneous office expenses	2,40,000	1:4	48,000	1,92,000
Interest	19,02,000	Actual	7,02,000	12,00,000
Goodwill (bal. fig.)			38,000	--
Net profit (B.f.)			--	38,72,000

Note: Since the profits prior to incorporation are in the negative, they would be treated as goodwill.

Working Notes:

(1)	**Calculation of Time Ratio**	
	Pre-Incorporation Period	Post-Incorporation Period
	1st January, 2014 to 31st March, 2014	1st April, 2014 to 31st March, 2015
	(3 Months)	(12 Months)
	3:	12
	1:	4
(2)	**Calculation of Sales Ratio**	
	Pre-Incorporation Period	Post-Incorporation Period
	3 Months	12 Months
	3 x 1	12 x 2
	3:	24
	1:	8
(3)	**Calculation of Staff Salary Ratio**	
	Pre-Incorporation Period	Post-Incorporation Period
	3 Months	12 Months
	3 x 1	12 x 3
	3:	36
	1:	12
(4)	**Calculation of Interest**	
	Pre-Incorporation Period	Post-Incorporation Period
	2,34,00,000 x 3/12 x 12/100	1,00,00,000 x 12/100
	= ₹ 7,02,000	= ₹ 12,00,000

(5)	**Calculation of Rent**				
	Rent on additional space				
	1 July 2014 to 31st March, 2015	=	9 Months		
	Total additional rent	=	60,000 x 9 = ₹ 5,40,000		
	Remaining rent on earlier space	=	14,40,000 – 5,40,000 = ₹ 9,00,000		
	Rent per month	=	$\frac{9,00,000}{15}$	=	₹ 60,000 per month
	Pre-Incorporation Period rent	=	60,000 x 3	=	1,80,000
	Post-Incorporation Period rent	=	60,000 x 12	=	7,20,000
	Additional rent			=	5,40,000
					12,60,000

(6) **Calculation of Gross Profit**

Trading Account

	₹		₹
To Cost of goods sold	3,27,60,000	By Sales	4,68,00,000
To Gross profit (Bal. fig.)	1,40,40,000		
	4,68,00,000		4,68,00,000

Note:

1. Pre incorporation period is 3 months upto 31st March 2014 and post incorporation period is of 12 months
2. As advertisement cost and discounts are directly related to sales, it is proper to assume that they would be incurred in the same ratio of time as Sales. Hence, 1 : 8
3 Since Managing Director is a position which is appointed in a company, it is proper to consider that his pay is incurred during the post incorporation period.
4. Interest on money borrowed to pay the purchase consideration is a post incorporation cost whereas the interest on purchase consideration for 3 months till payment will be pre incorporation cost.

6 b.

Journal Entries in the Books of Trinity Ltd.

		Dr.	Cr.
		₹	₹
Securities Premium A/c	Dr.	10,000	
To Premium on Redemption of Preference shares			10,000
(Being amount of premium payable on redemption of preference shares)			
10% Redeemable Preference Capital	Dr.	1,00,000	
Premium on redemption of Preference Shares	Dr.	10,000	
To Preference Shareholders			1,10,000
(Being the amount payable to preference shareholders on redemption)			
General Reserve A/c	Dr.	1,00,000	
To Capital Redemption Reserve			1,00,000
(Being transfer to the latter account on redemption of shares)			
Bank A/c	Dr.	90,000	
Profit and Loss A/c	Dr.	10,000	
To Investments			1,00,000
(Being amount realised on sale of Investments and loss thereon adjusted)			
Preference shareholders A/c	Dr.	1,10,000	
To Bank			1,10,000
(Being payment made to preference shareholders)			
Capital Redemption Reserve A/c	Dr.	1,00,000	
To Bonus to Shareholders			1,00,000
(Amount adjusted for issuing bonus share in the ratio of 1 : 1)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital			1,00,000
(Balance on former account transferred to latter)			

SAP 2(iii) Inter Old Business Laws, Ethics and Communication Answer Key

1.

A number of elements that can be used to describe or influence Organizational Culture and they are :-

- The Paradigm: What the organization is about; what it does; its mission; its values.
- Control Systems: The processes in place to monitor what is going on
- Organizational Structures: Reporting lines, hierarchies, and the way that work flows through the business.
- Power Structures: Who makes the decisions and how power is distributed across the organization.
- Symbols: These include the logos and designs, but would extend to symbols of power, such as car parking spaces and executive washrooms.
- Rituals and Routines: Management meetings, board reports and so on may become more habitual than necessary.
- Stories and Myths: build up about people and events, and convey a message about what is valued within the organization.

Communicating the corporate culture effectively is paramount. For example, at General Electric (GE), corporate values are so important to the company that Jack Welch, the former legendary CEO of the company, had them inscribed and distributed to all GE employees at every level of the Company.

2.

Under section 7(4)(a) if there is any dispute regarding the amount of gratuity payable to an employee or admissibility of any claim of or in relation to, an employee for payment of gratuity or the person entitled to receive the gratuity, the employer shall deposit, such amount as he admits to be payable by him as gratuity, to the controlling authority.

Section 7(4)(b) further provide that where there is a dispute with regard to any matter or matters specified in Clause (a), the employer or employee or any other person raising the dispute may make an application to the Controlling Authority for deciding the dispute.

The controlling authority shall, after due inquiry and after giving the reasonable opportunity of being heard to the parties to the dispute, determine the matter or matters in dispute. After such inquiry if any amount is found to be payable to the employee, the controlling authority shall direct the employer to deposit with it such amount or the difference of amount so determined and the amount already deposited by the employer to the controlling authority.

The controlling authority shall pay the amount deposited by the employer including the excess amount, if any, to the person entitled thereto.

As soon as the employer made the said deposit, the controlling authority shall pay the amount to the applicant where he is the employee or where the applicant is not the employee, to the nominee or as the case may be, the guardian of such nominee or legal heir of the employee, if he is satisfied that there is no dispute as to the right of the applicant to receive the amount of gratuity.

For the purpose of conducting inquiry, the controlling authority shall have the same powers as are vested in a court, while trying a suit, under the Code of Civil Procedure, 1908. The proceeding made by him will be the 'judicial proceedings' within the meaning of Sections 93 & 228 for the purposes of Section 196, Indian Penal Code the controlling authority will avail all the powers like enforcing the attendance, production of documents, receiving evidences on affidavits and issuing commission for the examination of witnesses. [Section 7(4)]

3.

Incorrect: Apparently it seems that public interest and consumer interest are synonymous, but it is not so. They may be differentiated as under:

(i) In the name of public interest, many Governmental policies are formulated which manifest themselves in anti-competitive behaviour. If the consumer is at the fulcrum, consumer interest and welfare should have primacy in all governmental policy formulations.

(ii) Consumer is a member of a broad class of people who purchase, use, maintain and dispose of products and services. They are being affected by pricing policy, financing practice, quality of goods, services and trade practices. They are clearly distinguished from manufacturers who produce goods for wholesalers, retailers who sell goods in public interest.

Public interest is something in which the society as a whole has some interest, and is seen as an externality to competitive markets. There is also a justifiable apprehension that in the name of public interest, Governmental policies may be fashioned and

introduced which may not be in the ultimate interest of the consumers. In fact in such situations, there is the possibility that a conflict could arise between public interest and consumer interest.

4.

(a) **(i)** As per the provisions contained in Section 32 (v) (c) of the Payment of Bonus Act, 1965, Jagdish is not entitled to any bonus as the said Act is not applicable to institutions (including hospitals, chambers of commerce and social welfare institutions) established not for purposes of profit.

(ii) Similarly the Payment of Bonus Act, 1965 is not applicable to the employees of an establishment which is engaged in an industry carried on by or under the authority of a department of the Central Government or the state government or a local authority under section 32 (iv) of the said Act.

5.

(i) An Apprentice is not entitled to bonus within the meaning of "Employee" under section 2(13) of the Payment of Bonus Act, 1965 and as also decided in the case *[Wheel RIM Co. Vs. Govt. of Tamil Nadu (1971)]*

(ii) An employee dismissed on the ground of misconduct shall be disqualified for any bonus under section 9 of the Payment of Bonus Act, 1965 only if the misconduct falls within the meaning of:

a. Fraud; or

b. Riotous or violent behaviour while on the premises of the establishment; or

c. Theft, misappropriation or sabotage of any property of the establishment.

It may be noted from the above grounds of disqualification, that "misconduct" is not mentioned. Misconduct is a broad term and can be interpreted to mean many things such as "insubordination", "misbehavior" or even "deliberate sub standard performance or negligence", but none of these will disqualify an employee from receiving bonus. Therefore, an employee dismissed on the ground of misconduct will be disqualified only if the conditions in a, b or c above can be established. *[Pandian Roadways Corporation Ltd. Vs. Presiding Officer (1996)]*

(iii) A temporary workman is entitled to bonus on the basis of the total number of days worked by him.

(iv) A piece-rated worker is entitled to bonus. *[Mathuradas Kanji Vs. L.A. Tribunal (1958)]*

(v) Under section 2 (13) of the Payment of Bonus Act, 1965 a person drawing a monthly salary of an amount in excess of ₹ 21,000, shall not fall within the meaning of an employee and consequently not eligible to receive bonus under the Act. Thus, employee getting a salary of ₹ 22,000 per month is not entitled to bonus.

6.

A sustainable innovation organisation should have:

(a) Vision and strategy for innovation

(b) Culture supporting innovation

(c) Processes, practices and systems supporting innovation

(d) Top management team leading to innovation.

(e) Effective cross-financial teams.

(f) Empowered employees driving innovation.

(g) Finding the right balance between bureaucracy and chaos.

SAP II Advance Accounts Answer key

1. a.

(1) **Calculation of annual lease payment**

	₹
Cost of the equipment	20,00,000
Unguaranteed residual value	2,50,000
PV residual value for 4 years @ 10% (2,50,000 x 0.683)	1,70,750
Fair value to be recovered from lease payment (₹ 20,00,000-1,70,750)	18,29,250
PV Factor for 4 years @ 10%	3.16987
Annual lease payment (₹18,29,250/PV Factor for 4 years @ 10% i.e. 3.16987	577074

(2) **Unearned Finance Income**

Total lease payments (₹ 5,77,074 x 4)	23,08,296
Add: Residual value	2,50,000
Gross investments	25,58,296
Less: Present value of investments (₹ 18,29,250 +1,70,750)	20,00,000
Unearned Finance Income	5,58,296

(3) **Segregation of Finance Income**

Year	Lease rentals (₹)	Finance charge @ 10% on outstanding amount of the year (₹)	Repayment (₹)	Outstanding Amount (₹)
0	-	-	-	20,00,000
1	5,77,074	2,00,000	3,77,074	16,22,926
2	5,77,074	1,62,293	4,14,781	12,08,145
3	5,77,074	1,20,814	4,56,260	7,51,885
4	8,27,074	75,189	7,51,885	-
	25,58,296	5,58,296	20,00,000	

1.b.

As per AS 11 (Revised) 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as an expense in the period in which they arise. However, Ministry of Corporate Affairs has recently amended AS 11 through a notification. As per the notification, exchange difference arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to requisition of depreciable capital asset, can be added to or deducted from cost of asset. The MCA has given an option for the enterprises to capitalize the exchange differences arising on reporting of long term foreign currency monetary items till 31st March, 2020. Thus the company can capitalize the exchange differences arising due to long term loans linked with the acquisition of fixed assets.

Transaction 1: Calculation of exchange difference on fixed assets

Foreign Exchange Liability = $\frac{5,000}{50}$ = US \$ 100 lakhs

Exchange Difference = US \$ 100 lakhs x (₹ 54.98 – ₹ 50) = ₹ 498 lakhs.

Loss due to exchange difference amounting ₹ 498 lakhs will be capitalised and added in the carrying value of fixed assets. Depreciation on the unamortised amount will be provided in the remaining years

Transaction 2: Soft loan exchange difference (US \$ 1 lakh i.e ₹ 50 lakhs)

Value of loan 31.3.13 → US \$ 1 lakh x 54.98 = ₹ 54,98,000

AS 11 also provides that in case of liability designated as long-term foreign currency monetary item (having a term of 12 months or more at the time of origination) the exchange difference is to be accumulated in the Foreign Currency Monetary Item Translation Difference (FCMITD) and should be written off over the useful life of such long-term liability, by recognition as income or expenses in each of such periods.

Exchange difference between reporting currency (INR) and foreign currency (USD) as on 31.03.2013 = US\$1.00 lakh X ₹ (54.98 – 50) = ₹ 4.98 lakh.

Loan account is to be increased to 54.98 lakh and FCMITD account is to be debited by 4.98 lakh. Since loan is repayable in 3 equal annual instalments, ₹ 4.98 lakh/3 = ₹ 1.66 lakh is to be charged in Profit and Loss Account for the year ended 31st March, 2013 and balance in FCMITD A/c ₹ (4.98 lakh – 1.66 lakh) = ₹ 3.32 lakh is to be shown on the 'Equity & Liabilities' side of the Balance Sheet as a negative figure under the head 'Reserve and Surplus' as a separate line item.

Note: The above answer is given on the basis that the company has availed the option under para 46A of AS 11

1.c.

As per para 31 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

(i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

(ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.

1.d

As per para 46 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it was viewed that the accounting treatment adopted by the company with respect to warranty is not correct.

2. a.

Statement showing distribution of cash

		Creditors	Capitals		
	₹	₹	A (₹)	B (₹)	C (₹)
Balance Due after loan (W.N.(i))		17,000	55,000	37,500	31,500
July					
Balance available	6,000				
Realisation less expenses					
and cash retained	17,500				
Amount available and paid	23,500	17,000	-	-	6,500
Balance due		—	55,000	37,500	25,000
August					
Opening balance	8,000				
Expenses paid and					
balance carried forward	4,000				
Available for distribution	4,000				
Cash paid to 'B' and Equipment					
given to C.			—	4,000	10,000
(Excess paid to 'C' ₹ 7,333)			55,000	33,500	15,000
September					
Opening balance	2,500				
Amount realised less expenses	74,000				
Amount paid to partners	76,500		41,500	25,400	9,600
			13,500	8,100	5,400

Working Note:

(i) **Highest Relative Capital Basis**

	A ₹	B ₹	C ₹
Scheme of payment for July			
Balance of Capital Accounts	67,000	45,000	31,500
Less : Loans	(12,000)	(7,500)	—
A	55,000	37,500	31,500
Profit sharing ratio	5	3	2
Capital Profit sharing ratio	11,000	12,500	15,750
Capital in profit sharing ratio, taking A's capital as base B	55,000	33,000	22,000
Excess of C's Capital and B's Capital (A-B)		4,500	9,500
Profit sharing ratio		3	2
Capital Profit sharing ratio		1,500	4,750
Capital in profit sharing			
ratio taking B's Capital as base		4,500	3,000
Excess of C's Capital over B			6,500

(ii) **Scheme of distribution of available cash**

	A ₹	B ₹	C ₹
Scheme of payment for September			
Balance of Capital Accounts (A)	55,000	33,500	15,000
Profit sharing ratio	5	3	2
Capital/Profit sharing ratio	11,000	11,167	7,500
Capital in profit sharing ratio taking C's			
capital as base (B)	37,500	22,500	15,000
Excess of A's capital and B's capital (A-B)	17,500	11,000	-
Profit sharing ratio	5	3	
Capital in profit sharing ratio	3,500	3,667	
Capital in profit sharing ratio taking A's			
capital as base	17,500	10,500	-
Excess of B's capital over A's capital	–	500	–
Payment ₹ 500 (C)	-	(500)	-
Balance of Excess	17,500	10,500	
Payment ₹ 28,000 (D)	(17,500)	(10,500)	-
Balance [A-C-D]	37,500	22,500	15,000
Payment (₹ 76,500 – ₹ 28,500) ₹ 48,000 (D)	(24,000)	(14,400)	(9,600)
Loss	13,500	8,100	5,400
Total Payment ₹ 76,500 [A+C+D]	41,500	25,400	9,600

2.b.

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	₹ 3,67,500
Equity shares of ₹ 10 each issued on conversion [₹ 3,67,500/ ₹ 15]	24,500 shares

3.a.

In the Books of Y Ltd.
Realisation Account

		₹		₹
To Sundry Assets :			By Retirement Gratuity Fund	60,000
Goodwill	75,000		By Trade payables	2,40,000
Land & Building	3,00,000		By X Ltd. (Purchase Consideration)	15,90,000
Plant & Machinery	4,50,000			
Inventory	5,25,000			
Trade receivables	3,00,000			
Bank	60,000	17,10,000		
To Preference Shareholders (Premium on Redemption)		30,000		
To Equity Shareholders (Profit on Realisation)		1,50,000		
		18,90,000		18,90,000

In the Books of X Ltd.
Journal Entries

		Dr. ₹	Cr. ₹
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. Account			15,90,000
(Being business of Y Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Land & Building Account	Dr.	5,00,000	
Plant & Machinery Account	Dr.	4,00,000	
Inventory Account	Dr.	4,72,500	
Trade receivables Account	Dr.	3,00,000	
Bank Account	Dr.	60,000	
Unrecorded assets Account	Dr.	15,000	
To Retirement Gratuity Fund Account			60,000
To Trade payables Account			2,40,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			15,90,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Y Ltd. A/c	Dr.	15,90,000	
To 9% Preference Share Capital A/c			3,30,000
To Equity Share Capital A/c			12,00,000
To Securities Premium A/c			60,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of X Ltd. (after absorption)
as at 31st March, 2018

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	48,30,000
	B	Reserves and Surplus	2	2,70,000
2		**Non-current liabilities**		
	A	Long-term provisions	3	2,10,000
3		**Current liabilities**		
	A	Trade Payables	4	6,10,000
	B	Short term provision	5	7,500
		Total		59,27,500

		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	6	33,00,000
		Intangible assets	7	3,00,000
2		**Current assets**		
	A	Inventories	8	12,22,500
	B	Trade receivables	9	8,80,000
	C	Other current Assets	10	15,000
	D	Cash and cash equivalents	11	2,10,000
		Total		59,27,500

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
		4,20,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000
	Preference share capital		
		6,300 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
	Total		48,30,000
2	**Reserves and Surplus**		
	Securities Premium		60,000
	General Reserve		2,10,000
	Total		2,70,000
3	**Long-term provisions**		
		Retirement Gratuity fund	2,10,000
4	**Trade payables**		
	(3,90,000 + 2,40,000 - 20,000*)		
	* *Mutual Owings eliminated.*		6,10,000
5	**Short term Provisions**		
		Provision for Doubtful Debts	7,500
6	**Tangible assets**		
		Land & Buildings	14,00,000
		Plant & Machinery	19,00,000
	Total		33,00,000

7	**Intangible assets**	
	Goodwill (1,50,000 +1,50,000)	3,00,000
8	**Inventories** (7,50,000 + 4,72,500)	12,22,500
9	**Trade receivables** (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	**Other current Assets**	15,000
11	**Cash and cash equivalents** (1,50,000 +60,000)	2,10,000

Working Notes:

1. Computation of goodwill ₹

Profit of 2016-17	90,000
Profit of 2015-16 adjusted ₹ 78,000 + 10,000)	88,000
Profit of 2014-15 adjusted (₹ 72,000 – 25,000)	47,000
	2,25,000
Average profit	75,000

Goodwill to be valued at 2 times of average profits = ₹ 75,000 x 2 = ₹ 1,50,000

2.

Purchase Consideration:		₹
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000 equity Shares of X Ltd. at 5% Premium		12,60,000
Total		**15,90,000**

3.b.

Allocation of Expenses

S.No.	Expenses	Basis
1.	Rent, rates and taxes, repairs, insurance of building	Floor area occupied by each department (if given) other wise on time basis
2.	Selling expenses, *e.g.*, discount, bad debts, selling commission, and other such selling expenses	Sales of each department
3.	Carriage inward	Purchases of each department
4.	Depreciation	Value of assets of each department otherwise on time basis
5	Interest on loan	Utilisation of loan amount in each department (if can be identified), otherwise in combined P& L A/c
6	Profit & loss on sale of investment	Value of investments sold in each department (if value can be identified), otherwise in combined P& L A/c
7	Wages	Time devoted to each department
8.	Lighting and Heating expenses (eg. energy expenses)	Consumption of energy by each department

4.a.

(i) **Department Trading Account**
For the year ending on 31.03.2013
In the books of Head Office

Particulars	₹	Particulars	₹
To Opening Stock	65,000	By Sales	3,00,000
To Purchases	2,00,000	By Shortage	1,000
To Gross Profit c/d	58,880	By Closing Stock	22,880
	3,23,880		3,23,880

(ii) **Memorandum stock account (for Department A) (at selling price)**

Particulars	₹	Particulars	₹
To Balance b/d (₹ 65,000+25% of ₹ 65,000)	81,250	By Profit & Loss A/c (Cost of Shortage)	1,000
To Purchases (₹ 2,00,000 + 25% of ₹ 2,00,000)	2,50,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (₹ 1,000 x 25%)	250
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	1,200
		By Debtors A/c (Sales)	3,00,000
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	600
		By Balance c/d	28,200
	3,31,250		3,31,250

(iii) **Memorandum Departmental Mark-up Account**

Particulars	₹	*Particulars*	₹
To Memorandum Departmental Stock A/c (₹ 1,000 × 25/100)	250	By Balance b/d (₹ 81,250 x 25/125)	16,250
To Memorandum Departmental Stock A/c	1,200	By Memorandum Departmental Stock A/c (₹ 2,50,000 x 25/125)	50,000
To Memorandum Departmental Stock A/c	600		
To Gross Profit transferred to Profit & Loss A/c	58,880		
To Balance c/d [(₹ 28,200 + 400*) x 25/125 - ₹ 400]	5,320		
	66,250		66,250

*[₹ 1,200 ×5,000/15,000] = ₹ 400

Working Notes:

(i) Calculation of Cost of Sales

		₹
A	Sales as per Books	3,00,000
B	*Add*: Mark-down in opening stock (given)	600
C	*Add*: mark-down in sales out of current Purchases (₹ 1,200 x 10,000 /15,000)	800
D	Value of sales if there was no mark-down (A+B+C)	3,01,400
E	*Less*: Gross Profit (25/125 of ₹ 3,01,400) subject to Mark Down (₹ 600 + ₹ 800)	(60,280)
F	Cost of sales (D-E)	2,41,120

(ii) Calculation of Closing Stock

		₹
A	Opening Stock	65,000
B	*Add*: Purchases	2,00,000
C	*Less*: Cost of Sales	(2,41,120)
D	*Less*: Shortage	(1,000)
E	Closing Stock (A+B-C-D)	22,880

b.

In the books of 3R Enterprises

Realisation Account

	₹		₹
To Land and Buildings	14,00,000	By Creditors	6,00,000
To Machinery	11,00,000	By 3R Enterprises (Pvt.) Ltd. A/c	42,00,000
To Furniture	6,10,000		
To Stock	8,40,000		
To Debtors	6,00,000		
To Cash at Bank	1,90,000		
To Ramesh's capital	30,000		
To Roshan's capital	20,000		
To Rohan's capital	10,000		
	48,00,000		48,00,000

Partners' Capital Accounts

	Ramesh	*Roshan*	*Rohan*		*Ramesh*	*Roshan*	*Rohan*
	₹	₹	₹		₹	₹	₹
To Shares in 3R Enterprises (Pvt.) Ltd. A/c	21,00,000	14,00,000	7,00,000	By Balance b/d	16,80,000	11,60,000	6,70,000
				By General Reserve	3,15,000	2,10,000	1,05,000
To Bank A/c (Settlement)	-	-	85,000	By Realization A/c (Profit)	30,000	20,000	10,000
				By Bank A/c (Settlement)	75,000	10,000	-
	21,00,000	14,00,000	7,85,000		21,00,000	14,00,000	7,85,000

In the Books of 3R Enterprises (Private) Ltd

Journal Entries

			₹	₹
1.	Business Purchase A/c	Dr.	42,00,000	
	To M/s 3R Enterprises			42,00,000
	(Consideration payable for business purchased)			
2.	Land and Buildings A/c	Dr.	16,40,000	
	Machinery A/c	Dr.	9,90,000	

	Furniture A/c	Dr.	6,10,000	
	Stock A/c	Dr.	8,40,000	
	Debtors A/c	Dr.	6,00,000	
	Bank A/c	Dr.	1,90,000	
	To Creditors A/c			6,00,000
	To Provision for doubtful debts A/c			30,000
	To Business Purchase A/c			42,00,000
	To Capital Reserve A/c (balancing figure)			40,000
	(Assets and liabilities taken over for ₹ 42,00,000; balance credited to capital reserve)			
3.	Capital reserve A/c (Expenses of takeover)	Dr.	23,000	
	To Bank A/c			23,000
	(Expenses for take over debited to capital reserve)			
4.	M/s 3R Enterprises A/c	Dr.	42,00,000	
	To Equity share capital A/c			42,00,000
	(Allotment of fully paid equity shares to discharge consideration for business)			
5.	Preliminary expenses A/c*	Dr.	57,000	
	To Bank A/c			57,000
	(Expenses incurred to get the company incorporated)			

5. a

(a) Debenture Redemption Reserve Account

2012		₹	2012		₹
Dec. 31	To 13.5% Deb. in XX Ltd. (Loss on sale of investment)	50,000	Jan. 1	By Balance b/d	45,00,000
	To General Reserve(transfer)	49,73,000	Dec. 31	By 13.5% Deb. in XX Ltd.	2,70,000
				By Own Deb. A/c (Int. on own Deb.)	2,53,000
		50,23,000			50,23,000

11% Debentures Account

2012		₹	2012		₹
Dec. 31	To Own Debentures A/c	24,00,000	Jan. 1	By Balance b/d	50,00,000
	To Bank	26,00,000			
		50,00,000			50,00,000

(b) **Own Debentures Account**

		Nominal	Int.	Amt.			Nominal	Int.	Amt.
2012		₹	₹	₹	2012		₹	₹	₹
Jan. 1	To Balance b/d	20,00,000	-	18,50,000	June 30	By Debenture			
Feb. 1	To Bank	2,00,000	1,833	1,94,167		Int. A/c		1,32,000	
June 1	To Bank	2,00,000	9,167	1,98,000	Dec. 31	By Debenture			
Dec. 31	To Capital Res.					Int. A/c		1,32,000	
	(profit on					By 11% Deb	24,00,000		
	cancellation)			1,57,833		Account, cancellation			24,00,000
	To. Deb. Redemp Reserve		2,53,000						
		24,00,000	2,64,000	24,00,000			24,00,000	2,64,000	24,00,000

Working Note :

13.5% Debentures in XX Ltd.

		Interest	Amount			Interest	Amount
2012		₹	₹	2012		₹	₹
Jan. 1	To Balance b/d			June 30	By Bank	1,35,000	
	(20,00,000)		19,50,000	Dec. 31	By Bank	1,35,000	
Dec. 31	To Debenture				By Bank		19,00,000
	Redemp. Reserve	2,70,000			By Debenture Redemp.		
					Reserve		
					(Loss on sale)		50,000
		2,70,000	19,50,000			2,70,000	19,50,000

5.b

. **Form B – RA (Prescribed by IRDA)**

Name of the Insurer: X Fire Insurance Co. Ltd.

Registration No. and Date of registration with the IRDA: ....

Revenue Account for the year ended 31st March, 20X2

	Particulars	*Schedule*	*Current year ended on 31st March, 20X2*
			₹
1.	Premium earned (Net)	1	7,00,000
	Total (A)		7,00,000
1.	Claims incurred (Net)	2	8,00,000
2.	Commission	3	50,000
3.	Operating Expenses related to insurance business	4	3,00,000
	Total (B)		11,50,000
	Operating Profit/(Loss) from Fire Insurance Business [C = (A – B)]		(4,50,000)

Schedule 1

Premium earned (Net)

	₹
Premium received from direct business written	15,00,000
Less: Premium on re-insurance ceded	(1,00,000)
	14,00,000
Adjustment for change in reserve for unexpired risk	7,00,000
Net Premium Earned	7,00,000

Schedule 2

Claims incurred (Net)

	₹
Claims paid – Direct	7,00,000
Add: Claims outstanding on 31.3.20X2	1,00,000
Total claims incurred	8,00,000

Schedule 3

Commission

Commission paid	50,000
Net commission	50,000

Schedule 4

Operating expenses related to insurance business

	₹
Expenses of Management	3,00,000

5.c.

Under section 27 (3) LLP Act, 2008, any obligation of the LLP arising out of a contract or otherwise shall be the sole obligation of the LLP. The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The liabilities of an LLP shall be met out of the assets / properties of the LLP. However, under section 28 (2) of the a partner shall be liable for his own wrongful acts or commissions, but shall not be liable for the wrongful acts or commissions of other partners of the LLP. Wrongful acts will include acts of fraud and wilful

omissions. Hence, the liability may fall only on that partner, who is guilty of any wrongful acts or commissions in respect of debts or liabilities acquired by such acts.