PAPER – 5 : ADVANCED ACCOUNTING

*Question No.**1** is compulsory.*

*Candidates are also required to answer any **five** questions from the remaining **six** questions.*

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

Question 1

(a) The management of Pluto Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as changes in Accounting Policy or not for the year ended 31st March, 2021. Please advise them in the following situations in accordance with the provisions of Accounting Standard 5:

(i) During the year ended 31st March, 2021, the management has introduced a formal retirement gratuity scheme in place of ad-hoc ex-gratia payments to its employees on retirement.

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees would receive a pension of ₹ 25,000 per month. Earlier there was no such scheme of pension in the organization.

(iii) Provision for doubtful Trade Receivables was created @2.5% till 31st March, 2020. From 1st April,2020, the rate of provision has been changed to 5%

(iv) For the year ended 31st March,2021 there was change in the cost formula in measuring the cost of Inventories.

(v) Till the end of the previous year, Computers were depreciated on Straight Line Basis over a period of 5 years. From current year, the useful life of Computers has been changed to 3 years.

(b) (i) A Ltd. entered into an agreement to sell its Plot, which is included in the Balance Sheet at ₹ 15 Lakhs, to B Ltd. for ₹ 50 Lakhs. The agreement to sell was concluded on 15th March, 2021 and the Sale deed was registered on 4th May, 2021.

(ii) Cheque Collected by Company's employee from Company's Trade Receivables on or before 31st March,2021 were presented for payment on 02.04.2021.

(iii) The company declared a dividend of 15% on its share capital of ₹ 20 crores for the F.Y. 2020-21 on 10.05.2021 .

(iv) A Major fire broke out in the factory premises on 05.04.2021 and destroyed machinery worth about ₹ 5 crores.

The financial statement for the F.Y. 2020-2021 were approved by the board on 15th June, 2021. How will you treat the above in the Balance Sheet of A Ltd. as on 31st March, 2021 in accordance with AS-4?

(c) Surya Ltd. had the following transactions during the year ended 31st March, 2021.

(i) It acquired the business of Gomati Limited on a going concern basis for ₹ 25,00,000 on 1st June,2020. The fair value of the Net Assets of Gomati Limited was ₹ 18,75,000. Surya Ltd. believes that due to popularity of the products of Gomati Limited in the market, its goodwill exists.

(ii) On 20th August, 2020, Surya Ltd. incurred cost of ₹ 6,00,000 to register the patent for its product. Surya Ltd. expects the Patent's economic life to be 8 years.

(iii) On 1st October, 2020, Surya Ltd. has taken a franchise to operate an ice cream parlour from Volga Ltd. for ₹ 4,50,000 and at an Annual Fee of 10 % of Net Revenues (after deducting expenditure). The franchise expires after six years. Net Revenue for the year ended 31st March, 2021 amounted to ₹ 1,50,000.

Surya Ltd. follows an accounting policy to amortize all Intangibles on Staright Line basis (SLM) over the maximum period permitted by the Accounting Standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business is to be amortized over 5 years (SLM).

Prepare an extract showing the Intangible Assets section in the Balance Sheet of Surya Ltd. as at 31st March, 2021.

(d) ABC Builders Limited had borrowed a sum of US \$ 15,00,000 at the beginning of Financial year 2020-21 for its residential project at LIBOR + 4 %. The interest is payable at the end of the Financial Year. At the time of availing the loan, the exchange rate was ₹ 72 per US \$ and the rate as on 31st March, 2021 was ₹ 76 per US \$. If ABC Builders Limited borrowed the loan in Indian Rupee equivalent, the pricing of loan would have been 9.50%. Compute Borrowing Cost and exchange difference for the year ending 31st Accounting Standards. (Applicable LIBOR is 1%). ***(4 Parts X 5 Marks = 20 Marks)***

Answer

(a) (i) As per AS 5, 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. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous transaction, will not be treated as change in an accounting policy.

(ii) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(iii) In the given case, company has created 2.5 % provision for doubtful debts till 31st March, 2020. Subsequently from 1st April, 2020, the company revised the estimates based on the changed circumstances and wants to create 5% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(iv) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

(v) Change in useful life of computers from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(b) (i) According to AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date. In the given case, sale of immovable property was carried out before the closure of the books of accounts. This is clearly an event occurring after the balance sheet date but agreement to sell was effected on 15th March, 2021 i.e. before the balance sheet date. Registration of the sale deed on 4th May, simply provides additional information relating to the conditions existing at the balance sheet date. Therefore, adjustment to assets for sale of immovable property is necessary in the financial statements for the year ended 31st March, 2021.

(ii) Cheques that are received before the balance sheet date should be accounted for in the period in which they are received even though the same may be collected in the next financial year. Moreover, the collection of cheques after balance sheet date does not represent any material change affecting financial position of the enterprise on the balance sheet date, so no disclosure is necessary. The Cheque in hand is shown in balance sheet as an item of cash and cash equivalents and the same will be deducted from trade receivables.

(iii) If dividends are declared after the balance sheet date but before the financial statements are approved, the dividends are not recognized as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes. Thus, no liability for dividends needs to be recognized in financial statements for financial year ended 31st March, 2021 and declaration of dividend is non-adjusting event.

(iv) AS 4 states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The damage of factory premises due to fire did not exist on the balance sheet date i.e. 31.3.2021. Therefore, loss occurred due to fire is not to be recognized in the financial year 2020-2021. However, according to the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the fire has caused major destruction; therefore, fundamental accounting assumption of going concern would have to be evaluated. Considering that the going concern assumption is still valid, the fact of fire together with an estimated loss of ₹ 5 crores should be disclosed in the report of the approving authority for financial year 2020-21 to enable users of financial statements to make proper evaluations and decisions. Otherwise the loss will have to be treated as adjusting event.

(c) **Surya Ltd.**

Balance Sheet (Extract relating to intangible asset) as on 31st March 2021

	Note No.	**₹**
Assets		
(1) Non-current assets		
Intangible assets	1	14,00,000

Notes to Accounts (Extract)

		₹	**₹**
1.	**Intangible assets**		
	Goodwill (Refer to note 1)	5,00,000	
	Patents (Refer to Note 2)	5,25,000	
	Franchise (Refer to Note 3)	3,75,000	14,00,000

Working Notes:

		₹
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	25,00,000
	Less: Fair value of net assets acquired	(18,75,000)
	Goodwill	6,25,000
	Less: Amortization. over 5 years (as per SLM)	(1,25,000)
	Balance to be shown in the balance sheet	5,00,000
(2)	Patent	6,00,000
	Less: Amortization (over 8 years as per SLM)	(75,000)
	Balance to be shown in the balance sheet	5,25,000
(3)	Franchise	4,50,000

	Less: Amortization (over 6 years)	(75,000)
	Balance to be shown in the balance sheet	3,75,000

(d) (i) Interest for the period 2020-21

= US \$ 15 lakhs x 5% × ₹ 76 per US \$ = Rs 57 lakhs

(ii) Increase in the liability towards the principal amount

= US \$ 15 lakhs × ₹ (76 - 72) = ₹ 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US \$ 15 lakhs × ₹ 72 x 9.5% = ₹ 102.60 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 102.60 lakhs less ₹ 57 lakhs = ₹ 45.60 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 45.60 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 102.60 lakhs being the aggregate of interest of ₹ 57 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 45.60 lakhs.

Hence, ₹ 102.60 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 "Borrowing Costs" and the remaining ₹ 14.4 lakhs (60 - 45.60) would be considered as the exchange difference to be accounted for as per AS 11 "The Effects of Changes in Foreign Exchange Rates".

Question 2

A and B and are partners of AB & Co., sharing Profit and Losses in the ratio of 4: 1 and B and C are partners of BC & Co., sharing profits and losses in the ratio of 2: 1. On 31st March,2021, they decided to amalgamate and form a new firm namely M/s ABC & Co., wherein A, B and C would be partners sharing profits and losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under:

Liabilities	*AB & Co. ₹*	*BC & Co. ₹*	*Assets*	*AB & Co. ₹*	*BC & Co. ₹*
Partners' Capital accounts:			*Fixed assets:*		
A	*3,50,000*	*-*	*Building*	*1,10,000*	*90,000*
B	*1,50,000*	*2,50,000*	*Plant & Machinery*	*1,80,000*	*1,34,000*
C	*-*	*1,20,000*			
Reserves	*39,000*	*1,47,000*	*Furniture*	*24,000*	*26,000*
Sundry creditors	*90,000*	*1,15,000*	*Current assets:*		

Due to AB & Co.	*-*	*75,000*	*Stock-in-trade*	*80,000*	*1,00,000*
Loan from Bank	*50,000*		*Sundry debtors*	*1,40,000*	*1,80,000*
			Bank balance	*45,000*	*1,65,000*
			Cash in hand	*25,000*	*12,000*
			Due from BC & Co.	*75,000*	*-*
	6,79,000	*7,07,000*		*6,79,000*	*7,07,000*

The amalgamate firm took over the business on the following terms:

(i) The assets and liabilities of AB & Co. and BC & Co. are to be valued as under:

Particulars	*AB & Co. ₹*	*BC & Co. ₹*
Building	*No change*	*1,50,000*
Plant & machinery	*2,40,000*	*1,90,000*
Stock-in trade	*to be appreciated by 10 %*	*to be appreciated by 10%*
Goodwill (Note (a))–to be valued	*5 year's purchase of super profit*	*6 year's purchase of super profit*
Provision for doubtful debts to be created	*14,000*	*30,000*

Note the followings:

(a) Goodwill should not appear in the books of ABC & Co. For the purpose of goodwill valuation, actual profit to be considered are ₹ 1,20,000 and ₹ 81,600 for AB & Co. and BC & Co. and BC & Co. respectively and normal rate of return for both firms is 18% per annum of Fixed Capital.

(b) All other assets and liabilities, appearing in the balance sheet of AB & Co. and BC & Co. are taken over by ABC & Co. at book value just before amalgamation.

(c) An unrecorded liability of ₹ 15,300 of AB & Co. must also be taken over by ABC & Co. The sundry creditors of AB & Co. do not include this unrecorded liability.

(ii) Partner of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit -sharing ratio.

You are required to prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms. Ignore taxation. ***(16 Marks)***

Answer

Balance Sheet of M/s ABC & Co. as at 31st March, 2021

Liabilities		₹	*Assets*		₹
Capitals:			Building (₹ 1,10,000 + ₹ 1,50,000)		2,60,000
A	5,95,350		Plant & machinery (₹ 2,40,000 + ₹ 1,90,000)		4,30,000
B	3,96,900		Furniture (₹ 24,000+₹ 26,000)		50,000
C	1,98,450	11,90,700	Stock-in-trade (₹ 88,000 + ₹ 1,10,000)		1,98,000
Sundry creditors (1,05,300+1,15,000)		2,20,300	Sundry debtors (₹ 1,40,000 + ₹ 1,80,000)	3,20,000	
Bank Loan		50,000	*Less:* Provision for doubtful debts (₹ 14,000+₹ 30,000)	(44,000)	2,76,000
			Bank balance (₹ 45,000 + ₹ 1,65,000)		2,10,000
			Cash in hand		37,000*
		14,61,000			14,61,000

In the books of AB & Co.
Partners' Capital Accounts

	Particulars	*A* ₹	*B* ₹		*Particulars*	*A* ₹	*B* ₹
To	Capital A/cs – M/s ABC & Co.	5,32,160	1,95,540	By	Balance b/d	3,50,000	1,50,000
				By	Reserve (4:1)	31,200	7,800
				By	Profit on Realization A/c (W.N.4)	1,50,960	37,740
		5,32,160	1,95,540			5,32,160	1,95,540

* *₹ 25,000+ ₹ 12,000 + ₹ 1,83,190+ ₹ 7,450 – ₹ 1,90,640 = ₹ 37,000.*

In the books of BC & Co.
Partners' Capital Accounts

	Particulars	B ₹	C ₹		Particulars	B ₹	C ₹
To	Capital A/cs – M/s ABC& Co.	4,72,000	2,31,000	By	Balance b/d	2,50,000	1,20,000
				By	Reserves (2:1)	98,000	49,000
				By	Profit on Realization (W.N.5)	1,24,000	62,000
		4,72,000	2,31,000			4,72,000	2,31,000

Working Notes:

1. **Computation of purchase considerations**

		AB & Co. ₹	BC & Co. ₹
Assets:			
Goodwill		1,50,000	90,000
Building		1,10,000	1,50,000
Plant & machinery		2,40,000	1,90,000
Furniture		24,000	26,000
Stock-in-trade		88,000	1,10,000
Sundry debtors		1,40,000	1,80,000
Bank balance		45,000	1,65,000
Cash in hand		25,000	12,000
Due from BC & Co.		75,000	-
	(A)	8,97,000	9,23,000
Liabilities:			
Creditors		90,000	1,15,000
Provision for doubtful debts		14,000	30,000
Due to AB& Co.		-	75,000
Loan from Bank		50,000	-
Unrecorded liability		15,300	
	(B)	1,69,300	2,20,000
Purchase consideration (A-B)		7,27,700	7,03,000

2. **Computation of proportionate capital**

	₹
M/s ABC & Co. (Purchase Consideration) (₹ 7,27,700 + ₹ 7,03,000)	14,30,700
Less: Goodwill adjustment	(2,40,000)
Total capital of new firm (Distributed in ratio 3:2:1)	11,90,700
A's proportionate capital	5,95,350
B's proportionate capital	3,96,900
C's proportionate capital	1,98,450

3. **Computation of Capital Adjustments**

	A	*B*	*C*	*Total*
	₹	₹	₹	₹
Balance transferred from AB & Co.	5,32,160	1,95,540		7,27,700
Balance transferred from BC & Co.		4,72,000	2,31,000	7,03,000
	5,32,160	6,67,540	2,31,000	14,30,700
Less: Goodwill written off in the ratio of 3:2:1	(1,20,000)	(80,000)	(40,000)	(2,40,000)
Existing capital	4,12,160	5,87,540	1,91,000	11,90,700
Proportionate capital	5,95,350	3,96,900	1,98,450	
Amount to be brought in (paid off)	1,83,190	(1,90,640)	7,450	

4. **In the books of AB & Co.**

Realization Account

	₹		₹
To Building	1,10,000	By Creditors	90,000
To Plant & machinery	1,80,000	By Bank Loan	50,000
To Furniture	24,000	By M/s AB & Co.	7,27,700
To Stock-in-trade	80,000	(purchase consideration)	
To Sundry debtors	1,40,000	(W.N.1)	
To Bank balance	45,000		
To Cash in hand	25,000		
To Due from BC & Co.	75,000		
To Partners' capital A/cs			
A 1,50,960			

B 37,740	1,88,700		
	8,67,700		8,67,700

5. **In the books of BC & Co.**

Realization Account

	₹		₹
To Building	90,000	By Creditors	1,15,000
To Plant & machinery	1,34,000	By Due to AB & Co.	75,000
To Furniture	26,000	By M/s ABC & Co.	7,03,000
To Stock-in-trade	1,00,000	(purchase consideration)	
To Sundry debtors	1,80,000	(W.N.1)	
To Bank balance	1,65,000		
To Cash in hand	12,000		
To Partners' capital A/cs			
B 1,24,000			
C 62,000	1,86,000		
	8,93,000		8,93,000

6. **Goodwill Computation:**

		₹
AB & Co.	Normal profit 5,00,000 × 18%	90,000
	Actual Profit	1,20,000
	Super Profit	30,000
	Goodwill (₹ 30,000 × 5)	1,50,000
BC & Co.	Normal profit 3,70,000 ×18%	66,600
	Actual Profit	81,600
	Super Profit	15,000
	Goodwill (₹15,000 × 6)	90,000

Note: The adjustments of partners A, B and C for Goodwill can also be shown in their Capital Accounts in the Books of AB & Co and BC & Co respectively.

Question 3

(a) A Company issued 2,00,000 shares of ₹ 10 each at a premium of ₹ 15.

The other details in this regard are as follows:

Underwriter	No. of shares Underwritten	Firm underwriting	No. of marked application
P	1,20,000	15,000	25,000
Q	50,000	10,500	32,000
R	30,000	20,000	9,500

Other Information:

(i) The marked application are excluding firm underwriting.

(ii) Total subscriptions received by the company (excluding firm underwriting and marked applications) were 32,500 shares.

(iii) Commission payable to underwriters is at 6% of the issue price.

(iv) The underwriting contract provides that credit for unmarked applications will be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwrites.

Based on the above information, determine the liability of each underwriter (number of shares), compute the amounts payable to or due from underwriters and Pass Journal Entries in the books of the company relating to underwriting.

(b) Azad Limited grants 100 Stock Options to each of its 800 employees on 1st Arpril,2017 for ₹ 20 (Face Value ₹ 10) depending upon the employment of the employees at the time of vesting of options. Options would be exercisable within a year it is vested. The shares of Azad Limited are trading on the Bombay Stock Exchange at ₹ 50 per Share. These options will vest at the end of year 1 if the earning of Azad Limited is 14 % or it will vest at the end of year 2 if the average earning of 2 years is 12% or lastly it will vest at the end of the third year if the average earning of 3 years will be 10%.

4,000 unvested options lapsed on 31st March, 2018. 3,200 unvested options lapsed on 31st March, 2019 and lastly 2,800 unvested options lapsed on 31st March, 2020.

The earning of Azad Limited during the years ended 31st March, 2018, 31st March, 2019 and 31st March, 2020 stood at 12%, 10% and 8% respectively.

680 employees exercised their vested options within a year i.e. during 2020-21 Financial year and the remaining options were not exercised at the end of the contractual period.

Pass Journal entries right from the date of grant to record the above transactions in the books of Azad Limited. ***(8 + 8 =16 Marks)***

Answer

(a) (i) Computation of total liability of underwriters in shares

	(In shares)			
	P	Q	R	*Total*
Gross liability	1,20,000	50,000	30,000	2,00,000
Less: Marked applications (excluding firm underwriting)	(25,000)	(32,000)	(9,500)	(66,500)
	95,000	18,000	20,500	1,33,500
Less: Unmarked applications in the ratio of gross liabilities of 12:5:3 (excluding firm underwriting)	(19,500)	(8,125)	(4,875)	(32,500)
	75,500	9,875	15,625	1,01,000
Less: Firm underwriting	(15,000)	(10,500)	(20,000)	(45,500)
	60,500	(625)	(4,375)	55,500
Less: Surplus of Q and R adjusted in P's balance (625+4,375)	(5,000)	625	4,375	
Net liability	55,500	-	-	55,500
Add: Firm underwriting	15,000	10,500	20,000	45,500
Total liability	70,500	10,500	20,000	1,01,000

(ii) Calculation of amount payable to or due from underwriters

	P	Q	R	*Total*
Total Liability in shares	70,500	10,500	20,000	1,01,000
Amount receivable @ ₹ 25 from underwriter (in ₹)	17,62,500	2,62,500	5,00,000	25,25,000
Less: Underwriting Commission payable @ 6% of ₹ 25 (in ₹)	(1,80,000)	(75,000)	(45,000)	(3,00,000)
Net amount receivable (in ₹)	15,82,500	1,87,500	4,55,000	22,25,000

(iii) Journal Entries in the books of the company (relating to underwriting)

			₹	₹
1.	P	Dr.	17,62,500	
	Q	Dr.	2,62,500	
	R	Dr.	5,00,000	
	To Share Capital A/c			10,10,000
	To Securities Premium A/c			15,15,000
	(Being allotment of shares to underwriters)			
2.	Underwriting commission A/c	Dr.	3,00,000	

	To P			1,80,000
	To Q			75,000
	To R			45,000
	(Being amount of underwriting commission payable)			
3.	Bank A/c	Dr.	22,25,000	
	To P			15,82,500
	To Q			1,87,500
	To R			4,55,000
	(Being net amount received by underwriters for shares allotted less underwriting commission)			

Note: As per the Companies (Prospectus and Allotment of Securities) Rules, 2014, the rate of underwriting commission, in case of shares, should not exceed 5% of the price at which the shares are issued. However, the question requires that the commission payable to underwriters is at 6% of the issue price. The answer given above, is strictly, based on the facts given in the question.

(b) Journal Entries in the books of Azad Limited

Date	*Particulars*		₹	₹
31.3.2018	Employees compensation expense A/c	Dr.	11,40,000	
	To ESOS outstanding A/c			11,40,000
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)			
	Profit and Loss A/c	Dr.	11,40,000	
	To Employees compensation expenses A/c			11,40,000
	(Being expenses transferred to profit and Loss A/c)			
31.3.2019	Employees compensation expenses A/c	Dr.	3,16,000	
	To ESOS outstanding A/c			3,16,000
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)			
	Profit and Loss A/c	Dr.	3,16,000	
	To Employees compensation expenses A/c			3,16,000

	(Being expenses transferred to profit and Loss A/c)			
31.3.2020	Employees compensation Expenses A/c	Dr.	6,44,000	
	To ESOS outstanding A/c			6,44,000
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)			
	Profit and Loss A/c		6,44,000	
	To Employees compensation expenses A/c			6,44,000
	(Being expenses transferred to profit and Loss A/c)			
2020-21	Bank A/c (680x 100 × ₹ 20)	Dr.	13,60,000	
	ESOS outstanding A/c [(21,00,000/70,000) x 68,000]	Dr.	20,40,000	
	To Equity share capital (68,000 x ₹ 10)			6,80,000
	To Securities premium A/c (68,000 x ₹ 40)			27,20,000
	(Being 68,000 options exercised at an exercise price of ₹ 50 each)			
31.3.2021	ESOS outstanding A/c	Dr.	60,000	
	To General Reserve A/c			60,000
	(Being ESOS outstanding A/c on lapse of 2,000 options at the end of exercise of option period transferred to General Reserve A/c)			

Note: Following alternative entries may be given in place of last two entries:

2020-21	Bank A/c (680x 100 × ₹ 20)	Dr.	13,60,000	
	To Equity share capital (68,000 x ₹ 10)			6,80,000
	To Securities premium A/c (68,000 x ₹ 10)			6,80,000
	(Being 68,000 options exercised at an exercise price of ₹ 20 each)			
31.3.2021	ESOS outstanding A/c	Dr.	21,00,000	
	To Securities Premium A/c (68,000 x			20,40,000

	₹ 30)		
	To General Reserve A/c		60,000
	(Being premium @ ₹ 30 on 68,000 shares and balance ESOS Outstanding A/c transferred to General Reserve A/c)		

Working Note:

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

Particulars	Year 1 (31.3.2018)	Year 2 (31.3.2019)	Year 3 (31.3.2020)
Number of options expected to vest	76,000 options	72,800 options	70,000 options
Total compensation expense accrued (50-20)	₹ 22,80,000	₹ 21,84,000	₹ 21,00,000
Compensation expense of the year	22,80,000 x 1/2 = ₹ 11,40,000	21,84,000 x 2/3 = ₹ 14,56,000	₹ 21,00,000
Compensation expense recognized previously	Nil	₹ 11,40,000	₹ 14,56,000
Compensation expenses to be recognized for the year	₹ 11,40,000	₹ 3,16,000	₹ 6,44,000

Question 4

A Limited and B Limited are carrying on business of same nature. On 31st March, 2021 their summarized Balance Sheet was as follows:

	A Ltd.(₹)	*B Ltd. (₹)*
Share Capital		
- *Equity Shares 10 each (Fully Paid)*	*12,00,000*	*7,20,000*
- *10% Preference Shares of ₹ 100 each*	*6,00,000*	*-*
- *8% Preference Shares of ₹ 100 each*	*-*	*5,00,000*
General Reserve	*3,00,000*	*2,50,000*
Investment Allowance Reserve	*-*	*60,000*
Security Premium	*2,40,000*	*-*
Export Profit Reserve	*1,80,000*	*1,20,000*
Profit & Loss Account	*2,16,000*	*1,92,000*
9% Debentures (₹ 10 each)	*3,00,000*	*2,00,000*
Secured Loan	*-*	*3,60,000*
Sundry Creditors	*3,12,000*	*2,04,000*

Bills Payable	*75,000*	*1,00,000*
Other Current Liabilities	*50,000*	*75,000*
	34,73,000	*27,81,000*
Land and Building	*10,80,000*	*8,40,000*
Plant and Machinery	*6,00,000*	*5,60,000*
Office Equipment	*3,45,000*	*2,10,000*
Investments	*96,000*	*3,00,000*
Stock in Trade	*6,30,000*	*4,20,000*
Sundry Debtors	*4,90,000*	*3,20,000*
Bills Receivables	*60,000*	*70,000*
Cash at Bank	*1,72,000*	*61,000*
	34,73,000	*27,81,000*

A Limited take over B Limited on the above date, both companies agreeing on a scheme of Amalgamation on the following terms:

(a) A Limited will issue 80,000 Equity Shares of ₹ 10 each at par to the Equity Shareholders of B Limited.

(b) A Limited will issue 10% Preference Shares of ₹ 100 each to discharge the Preference Shareholders of B Limited at 15% premium in such a way that the existing dividend quantum of the preference shareholders of B Limited will not get affected.

(c) The Debentures of B Limited will be converted into equivalent number of Debentures of A Limited.

(d) All the Bills Receivable of A Limited were accepted by B Limited.

(e) A contingent liability of B Limited amounting to ₹ 72,000 to be treated as actual liability in trade payables.

(f) Expenses of Amalgamation amounted to ₹ 12,000 were borne by A Limited.

You are required to pass opening Journal Entries in A Limited and prepare the opening Balance Sheet of A Limited as on 1st April, 2021 after amalgamation, assuming that the amalgamation is in the nature of Merger. ***(16 Marks)***

Answer

Journal Entries in the books of A Ltd.

Particulars		*Debit* ₹	*Credit* ₹
Business purchase A/c (W.N.1)	Dr.	13,75,000	
To Liquidator of B Ltd.			13,75,000

(Being business of B Ltd. taken over)			
Land & Building A/c	Dr.	8,40,000	
Plant and machinery A/c	Dr.	5,60,000	
Office equipment A/c	Dr.	2,10,000	
Investments A/c	Dr.	3,00,000	
Inventory A/c	Dr.	4,20,000	
Debtors A/c	Dr.	3,20,000	
Bills receivables A/c	Dr.	70,000	
Bank A/c	Dr.	61,000	
To General reserve A/c (W.N.2) (2,50,000-1,55,000)			95,000
To Export profit reserve A/c			1,20,000
To Investment allowance reserve A/c			60,000
To Profit and loss A/c			1,20,000
To Liability for 9% Debentures A/c (₹ 100 each)			2,00,000
To Secured Loan			3,60,000
To Trade creditors A/c			2,76,000
To Bills payables A/c			1,00,000
To Other current liabilities A/c			75,000
To Business purchase A/c			13,75,000
(Being assets and liabilities taken over)			
Liquidator of B Ltd.	Dr.	13,75,000	
To Equity share capital A/c			8,00,000
To 10% Preference share capital A/c			4,00,000
To Securities premium			1,75,000
(Being purchase consideration discharged)			
General Reserve* A/c	Dr.	12,000	
To Cash at bank			12,000
(Being expenses of amalgamation paid)			
Liability for 9% Debentures in B Ltd. A/c	Dr.	2,00,000	
To 9% Debentures A/c			2,00,000
(Being debentures in B ltd. discharged by issuing own 9% debentures)			
Bills payables A/c	Dr.	60,000	
To Bill receivables A/c			60,000
(Cancellation of mutual owing on account of bills of exchange)			

**Alternatively, profit & loss A/c may be debited in place of general reserve A/c.*

Opening Balance Sheet of A Ltd. (after absorption)
as at 1st April, 2021

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	30,00,000
b	Reserves and Surplus	2	14,94,000
2	Non-current liabilities		
a	Long-term borrowings	3	8,60,000
3	Current liabilities		
a	Trade Payables	4	7,03,000
b	Other current liabilities	5	1,25,000
	Total		61,82,000
	Assets		
1	Non-current assets		
a	PPE	6	36,35,000
b	Investments	7	3,96,000
2	Current assets		
a	Inventories	8	10,50,000
b	Trade receivables	9	8,80,000
c	Cash and cash equivalents	10	2,21,000
	Total		61,82,000

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
2,00,000 Equity shares of ₹ 10 each (Out of above, 80,000 shares were issued for consideration other than cash)		20,00,000
Preference share capital		
10,000 10% Preference shares of ₹ 100 each (Out of above, 4,000 shares were issued for consideration other than cash)		10,00,000

	Total		30,00,000
2	Reserves and Surplus		
	General Reserve		
	Opening balance	3,00,000	
	Add: Adjustment under scheme of amalgamation	95,000	
	Less: Amalgamation expense paid	(12,000)	3,83,000
	Securities premium (2,40,000+1,75,000)		4,15,000
	Export profit reserve		
	Opening balance	1,80,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,00,000
	Investment allowance reserve		60,000
	Profit and loss account		
	Opening balance	2,16,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,36,000
	Total		14,94,000
3	Long-term borrowings		
	Secured		
	9% Debentures	3,00,000	
	Add: Adjustment under scheme of amalgamation	2,00,000	
	Secured loan	3,60,000	8,60,000
4	Trade payables		
	Creditors: Opening balance	3,12,000	
	Add: Adjustment under scheme of amalgamation	2,76,000	5,88,000
	Bills Payables: Opening balance	75,000	
	Add: Adjustment under scheme of amalgamation	1,00,000	
	Less: Cancellation of mutual owning upon amalgamation	(60,000)	1,15,000
			7,03,000
5	Other current liabilities		
	Opening balance	50,000	
	Add: Adjustment under scheme of amalgamation	75,000	1,25,000
6	PPE		
	Land & Building- Opening balance	10,80,000	
	Add: Adjustment under scheme of amalgamation	8,40,000	19,20,000
	Plant and machinery- Opening balance	6,00,000	
	Add: Adjustment under scheme of amalgamation	5,60,000	11,60,000
	Office equipment- Opening balance	3,45,000	

	Add: Adjustment under scheme of amalgamation	2,10,000	5,55,000
	Total		36,35,000
7	Investments		
	Opening balance	96,000	
	Add: Adjustment under scheme of amalgamation	3,00,000	3,96,000
8	Inventories		
	Opening balance	6,30,000	
	Add: Adjustment under scheme of amalgamation	4,20,000	10,50,000
9	Trade receivables		
	Debtors: Opening balance	4,90,000	
	Add: Adjustment under scheme of amalgamation	3,20,000	8,10,000
	Bills Payables: Opening balance	60,000	
	Add: Adjustment under scheme of amalgamation	70,000	
	Less: Cancellation of mutual owning upon amalgamation	(60,000)	70,000
	Total		8,80,000
10	Cash and cash equivalents		
	Opening balance	1,72,000	
	Add: Adjustment under scheme of amalgamation	61,000	
	Less: Amalgamation expense paid	(12,000)	2,21,000

Working Notes:

1. Calculation of purchase consideration

	₹
Equity shareholders of B Ltd. (80,000 x ₹ 10)	8,00,000
Preference shareholders of B Ltd. (5,00,000 x 115%)	5,75,000
Purchase consideration would be	**13,75,000**

2. Amount to be adjusted from general reserve

The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve.

Thus, General reserve will be adjusted as follows:

	₹
Purchase consideration	13,75,000
Less: Share capital issued (₹ 7,20,000 + ₹ 5,00,000)	(12,20,000)
Amount to be adjusted from general reserve	1,55,000

3. Calculation of number of preference shares

	₹
Dividend on 8% preference shares of 5,000 of Rs 100 each	40,000
No. of shares on the basis of same dividend @ 10 %	4,000
40,000/10x 100	
Share capital 10% preference share of 4,000 of Rs 100 each	4,00,000

4. Calculation of balances of Profit & Loss and Sundry Creditors of B Limited to be taken over by A Limited

	P&L (₹)	Creditors (₹)
Balance as per Balance Sheet of B Limited	1,92,000	2,04,000
Less / Add: Contingent Trade Payable treated as Actual Liability	(72,000)	72,000
Taken by A Limited	1,20,000	2,76,000

Note: The question states that A Ltd. will issue 10% pref. shares to discharge the preference shareholders of B Ltd. at 15% premium in such a way that the existing dividend quantum of B Ltd. preference shareholders will not get affected. In the above solution, it is presumed that ₹ 5,00,000 pref. shares are discharged at ₹ 5,75,000 (5,00,000X 115%) by issue of 4,000 preference shares of ` 100 each at premium of ₹ 43.75 each. Alternative considering that 5,00,000 preference shares are discharged at ₹ 4,60,000 (4,00,000X 115%) by issue of 4,000 preference shares of ` 100 each at premium of `15 each. In this case, the purchase consideration will be computed as 12,60,000 and correspondingly, the answer will get modified. Thus changes will be made in the given solution for the following journal entries, Note to Accounts and Working Notes (balance sheet will be changed accordingly):

Journal Entries in the books of A Ltd.

Particulars		*Debit* ₹	*Credit* ₹
Business purchase A/c (W.N.1)	Dr.	12,60,000	
To Liquidator of B Ltd.			12,60,000
(Being business of B Ltd. taken over)			
Land & Building A/c	Dr.	8,40,000	
Plant and machinery A/c	Dr.	5,60,000	
Office equipment A/c	Dr.	2,10,000	
Investments A/c	Dr.	3,00,000	
Inventory A/c	Dr.	4,20,000	

Debtors A/c	Dr.	3,20,000	
Bills receivables A/c	Dr.	70,000	
Bank A/c	Dr.	61,000	
To General reserve A/c (W.N.2) (2,50,000-40,000)			2,10,000
To Export profit reserve A/c			1,20,000
To Investment allowance reserve A/c			60,000
To Profit and loss A/c			1,20,000
To Liability for 9% Debentures A/c (₹ 100 each)			2,00,000
To secured Loan			3,60,000
To Trade creditors A/c			2,76,000
To Bills payables A/c			1,00,000
To Other current liabilities A/c			75,000
To Business purchase A/c			12,60,000
(Being assets and liabilities taken over)			
Liquidator of B Ltd.	Dr.	12,60,000	
To Equity share capital A/c			8,00,000
To 10% Preference share capital A/c			4,00,000
To Securities premium			60,000
(Being purchase consideration discharged)			

Notes to Accounts:

			₹
2	Reserves and Surplus		
	General Reserve		
	Opening balance	3,00,000	
	Add: Adjustment under scheme of amalgamation	2,10,000	
	Less: Amalgamation expense paid	(12,000)	4,98,000
	Securities premium (2,40,000 + 60,000)		3,00,000
	Export profit reserve		
	Opening balance	1,80,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,00,000

Investment allowance reserve		60,000
Profit and loss account		
Opening balance	2,16,000	
Add: Adjustment under scheme of amalgamation	1,20,000	3,36,000
Total		14,94,000

Working Notes:

1. Calculation of purchase consideration

	₹
Equity shareholders of B Ltd. (80,000 x ₹ 10)	8,00,000
Preference shareholders of B Ltd. (4,00,000 x 115%)	4,60,000
Purchase consideration would be	12,60,000

2. Amount to be adjusted from general reserve

The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve.

Thus, General reserve will be adjusted as follows:

	₹
Purchase consideration	12,60,000
Less: Share capital issued (₹ 7,20,000 + ₹ 5,00,000)	(12,20,000)
Amount to be adjusted from general reserve	40,000

Question 5

(a) Zodiac General Insurance Company Limited has furnished the following data in respect of the Fire Insurances business conducted by it during the year ended 31st March, 2021.

Particulars	*Direct Business (₹)*	*Reinsurance (₹)*
Premium Received	*60,20,000*	*6,60,000*
Premium Paid		*3,92,000*
Claims Paid during the Year	*39,76,000*	*4,08,000*
Claims Payable:		
1st April,2020	*5,48,000*	*76,000*
31st March,2021	*5,90,400*	*56,000*
Claims Received		*3,16,000*

Claim Receivable:		
1st April,2020		*60,000*
31st March,2021		*1,00,000*
Expenses of Management	*2,50,000*	
Interest & Dividend Received (Net of TDS)	*16,500*	
Income Tax Deducted (TDS) on above	*1,500*	
Commission on-		
Insurance accepted	*1,28,000*	*12,000*
Insurance ceded		*14,400*

The following additional information is also available:

(1) Expenses of Management include ₹ 36,000 towards Surveyor's fees and ₹ 44,000 towards Legal expenses for settlement of claims.

(2) Reserve for Unexpired Risk is to be maintained at 40 %. The balance of Reserve for Unexpired Risk as on 1st April,2020 was ₹ 22,72,000.

You are required to prepare the Revenue Accounts in the prescribed form for the year ended 31st March,2021.

(b) The following are the Capital funds of Shreya Bank (Commercial).

₹ in Crores

Paid up Equity Share Capital	*950*
Statutory Reserve	*380*
Share Premium	*250*
Capital Reserve (of which ₹ 26 Crores were due to Revaluation of Assets and balance due to Sale of Capital Assets)	*118*
Assets:	
(a) Cash Balances with RBI	*78*
(b) Balance with other Banks	*240*
Other Investments	*98*
Loans and Advances:	
(a) Guaranteed by the Government	*600*
(b) Granted to Staff of Bank, fully covered by Superannuation Benefits & Mortgage.	*800*
(c) Other Loans & Advances.	*6,000*
Premises, Furniture & Fixtures	*100*

Intangible Assets	*20*
Off Balance Sheet Items:	
(a) Guarantees and Other Obligations	*1,000*
(b) Acceptance, Endorsements and Letter of Credit	*6,000*

You are required to segregate the Capital Funds into Tier I and Tier II Capitals and also to find out the Risk Adjusted Asset and Risk weighted Assets Ratio. ***(10 + 6= 16 Marks)***

Answer

(a) **Form B-RA (Prescribed by IRDA)**

Zodiac General Insurance Company

Revenue Account for the year ended 31st March, 2021

Particulars	*Schedule*	*Amount (₹)*
Premium earned (net)	1	60,44,800
Profit / Loss on sale / redemption of investments		
Others (to be specified)		
Interest, dividend and rent gross		18,000
Total (A)		60,62,800
Claims incurred (Net)	2	41,30,400
Commission	3	1,25,600
Operating expenses related to insurance business	4	1,70,000
Total (B)		44,26,000
Operating profit from insurance business (A-B)		16,36,800

Schedules forming part of revenue account

Schedule 1 : Premium Earned (Net)

Particulars	₹
Premium from direct business	60,20,000
Add: Premium on reinsurance accepted	6,60,000
Less: Premium on reinsurance ceded	(3,92,000)
Net premium	62,88,000
Adjustment for change in reserve for unexpired risks (W.N.2)	(2,43,200)
Total premium earned (net)	60,44,800

Schedule 2 : Claims Incurred (Net)

Particulars	₹
Claims paid on direct business (W.N.1)	40,98,400
Add: Re-insurance accepted (W.N.1)	3,88,000
Less: Re-insurance ceded (W.N.1)	(3,56,000)
Net claims paid	41,30,400

Schedule 3 : Commission

Particulars	₹
Commission paid on direct business	1,28,000
Add: Commission on reinsurance accepted	12,000
Less: Commission on reinsurance ceded	(14,400)
	1,25,600

Schedule 4 : Operating Expenses related to Insurance Business

Particulars	₹
Expenses of management (2,50,000 – 36,000 – 44,000)	1,70,000
	1,70,000

Working Notes:

1. **Claims incurred**

Particulars	*Direct business (₹)*	*Re-insurance accepted (₹)*	*Re-insurance ceded (₹)*
Paid/received	39,76,000	4,08,000	3,16,000
Add: Outstanding at the end of the year	5,90,400	56,000	1,00,000
Expenses in connection with settlement of claim (36,000 + 44,000)	80,000	--	
Less: Outstanding at the beginning of the year	(5,48,000)	(76,000)	(60,000)
	40,98,400	3,88,000	3,56,000

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

2. Change in reserve for unexpired risk

	₹
Opening reserve as on 31st March, 2020	22,72,000
Less: Closing reserve as on 31st March, 2021 (₹ 62,88,000 x 40%)	(25,15,200)
Additional provision required	**(2,43,200)**

NOTE: Interest and dividends are shown at gross value in Revenue account. Income tax on it will not be included in the Revenue account as it is the part of Profit and Loss account of an insurance company.

(b) (i) Capital Funds - Tier I: ***(Figures in ₹ Crores)***

Equity Share Capital		950
Statutory Reserve		380
Share Premium		250
Capital Reserve (arising out of sale of assets)		92
		1,672
Less: Intangible assets		(20)
		1,652
Capital Funds - Tier II:		
Capital Reserve (arising out of revaluation of assets)	26	
Less: Discount to the extent of 55%	(14.3)	11.7
		1,663.70

(ii) Risk Adjusted Assets

Funded Risk Assets	₹ in lakhs	Percentage weight	Amount ₹ in lakhs
Cash Balance with RBI	78	0	0
Balances with other Banks	240	20	48
Other Investments	98	100	98
Loans and Advances:			
(i) guaranteed by government	600	0	0

	(ii) granted to staff	800	20	160
(iii)	**Others**	6000	100	6000
	Premises, furniture and fixtures	100	100	100
	Off Balance Sheet Items			
	Acceptances, Endorsements			
	and Letters of credit	6000	100	6000
	Guarantees & other obligations	1000	100	1000
	Risk Adjusted Assets + Off Balance Sheet Items			13,406

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

$= \frac{1,663.70}{13,406} \times 100$

Capital Adequacy Ratio = 12.41%

Question 6

(a) On 31st December 2020, the following is the Trial Balance of the London Branch of Alpha & Co. whose Head Office is situated at Pune, India.

	Dr. €	*Cr.€*
Furniture	*4,000*	
Stock as on 1st January,2020	*1,867*	
Debtors	*800*	
Cash at Bank	*200*	
Head Office		*3,800*
Creditors		*567*
Sales		*14,000*
Purchases Local	*233*	
Expenses	*600*	
Goods from Head Office	*10,667*	
Total	*18,367*	*18,367*

Head Office provides you the following details:

Dr. *Cr.*

	₹		₹
To Balance b/d	*1,35,000*	*By Bank*	*4,79,333*
To Goods sent to Branch	*4,87,667*	*By Balance c/d*	*1,43,334*
	6,22,667		*6,22,667*

Additional Information:

(1) Goods are sent to Branch at 10% plus cost and the Branch sells goods at 25% on invoice price (Including local purchase). Closing stock includes only stock received from H.O.

(2) Furniture was acquired on 1st January, 2020 when € 1.00 = ₹ 70, Furniture is to be depreciated at 10%.

(3) The Branch Manager is entitled to a commission of 10 % on Profits of the Branch.

(4) Rates of Exchange were, on 1st January, 2020 € 1.00 = ₹ 70, on 31st December, 2020 € 1.00 = ₹ 80 and Average € 1.0 = ₹ 75.

You are required to prepare, considering London Branch as an Integral Foreign operation of Alpha & Co.:

(i) Branch Trading and Profit & Loss Account and Branch Account in Euro.

(ii) Convert Trial Balance in Indian Currency.

(iii) Branch Trading and Profit & Loss Account and Branch Account in India Currency in the books of Head Office.

(b) MS Enterprises has four Departments viz. A,B,C,& D.

(i) Department A transfer goods to department B at a profit of 30% on cost, department C at 25% on cost and department D at 20% on cost.

(ii) Department B transfer goods to department A at a profit of 25% on sales, department C at 25% on sales and department D at 20 % on sales.

(iii) Department C transfer goods to department A at a profit of 40% on cost, department B at 30 % on cost and department D at 20% on cost.

(iv) Department D transfer goods to department A at a profit of 30% on sales, department B at 25% on sales and department C at 25% on sales.

Goods transferred between the departments during the F Y 2020-2021 were as follows:

	Department A (₹)	*Department B (₹)*	*Department C (₹)*	*Department D (₹)*
From Department A	-	*1,95,000*	*1,75,000*	*1,20,000*
From Department B	*1,00,000*	-	*50,000*	*70,000*
From Department C	*87,500*	*91,000*	-	*1,11,000*
From Department D	*1,50,000*	*90,000*	*85,000*	-

You are required to calculate unrealized profit of each department and unrealized profit in total. ***(12 + 4 =16 Marks)***

Answer

(a) (i)

In the Books of Head Office
Branch Trading and Profit & Loss A/c (in Euro) for the year ended 31st December, 2020

Particulars	Euro	*Particulars*	Euro
To Opening stock	1,867	By Sales	14,000
To Goods from H.O.	10,667	By Closing stock (W.N.2)	1,567
To Purchases	233		
To Gross profit c/d	2,800		
	15,567		15,567
To Expenses	600	By Gross profit b/d	2,800
To Depreciation (4,000 × 10%)	400		
To Manager's commission (W.N.1)	180		
To Net profit c/d	1,620		
	2,800		2,800

(ii) Trial Balance of London Branch as on 31st December, 2020 (Indian currency)

Particulars	Pound	Rate Per Euro	Dr. (₹)	Cr. (₹)
Furniture	4,000	70	2,80,000	
Stock (as on 1st Jan, 2020)	1,867	70	1,30,690	
Goods from Head Office	10,667	-	4,87,667	
Sales	14,000	75		10,50,000
Purchases	233	75	17,475	

Expenses	600	75	45,000	
Debtors	800	80	64,000	
Creditors	567	80		45,360
Cash at Bank	200	80	16,000	
Head office Account		-		1,43,334
Exchange Difference			1,97,862	-
			12,38,694	12,38,694

(iii) Branch Trading and Profit & Loss A/c for the year ended 31st December, 2020

	₹		₹
To Opening stock	1,30,690	By Sales	10,50,000
To Goods from head office	4,87,667	By Closing stock (W.N.2)	1,25,360
To Purchase	17,475		
To Gross profit c/d	5,39,528		
	11,75,360		11,75,360
To Expenses	45,000	By Gross profit b/d	5,39,528
To Depreciation @ 10% on ₹ 2,80,000	28,000		
To Manager's commission (W.N.1)	14,400		
To Exchange Difference	1,97,862		
To Net Profit c/d	2,54,266		
	5,39,528		5,39,528

Branch Account

	₹			₹
To Balance b/d	1,43,334	By Furniture	2,80,000	
To Net profit	2,54,266	*Less:*		2,52,000
To Creditors	45,360	Depreciation	(28,000)	
To Outstanding commission	14,400	By Closing stock		1,25,360
		By Debtors		64,000
		By Cash at bank		16,000
	4,57,360			4,57,360

Working Notes:

1. Calculation of manager's commission @ 10% on profit

i.e.	10% of Euro [2,800 – (600 + 400)]
Or	10% × Euro 1,800 = $ 180
Manager's commission in Rupees = Euro 180 × ₹ 80 = ₹ 14,400	

2. Calculation of closing stock	Euro
Opening stock	1,867
Add: Goods from head office	10,667
	12,534
Less: Cost of goods sold (at invoice price)	
i.e. $\frac{100}{125} \times 14{,}000$ =11,200	
Cost of goods sold of goods received from H.O.	
(Euro 11,200- euro 233)	10,967
Closing stock	1,567
Closing stock in Rupees = Euro 1,567 x ₹ 80 = ₹ 1,25,360.	

NOTE: Since Branch is an integral foreign operation. Hence,

(1) Fixed assets (cost and depreciation) are translated using the exchange rate at the date of purchase of the assets.

(2) Exchange difference arising on translation of the financial statement is charged to Profit and Loss Account.

(b) Calculation of unrealized profit of each department and total unrealized profit

	Dept. A	*Dept. B*	*Dept. C*	*Dept. D*	*Total*
	₹	₹	₹		₹
Unrealized Profit of:					
Department A		$\frac{1,95,000}{130} \times 30$ = 45,000	$\frac{1,75,000}{125} \times 25$ = 35,000	$\frac{1,20,000}{120} \times 20$ = 20,000	1,00,000
Department B	1,00,000 x 25% = 25,000		50,000 x 25% = 12,500	70,000 x 20% = 14,000	51,500
Department	$\frac{87,500}{140} \times 40$	$\frac{91,000}{130} \times 30$ =		$\frac{1,11,000}{120} \times 20$	

C	= 25,000	21,000		= 18,500	64,500
Department D	1,50,000 x 30% = 45,000	90,000 x 25% = 22,500	85,000 x 25% = 21,250		88,750
					3,04,750

Question 7

*Answer any **four** of the followings:*

(a) *State any four qualitative characteristics of the financial statements which will improve the usefulness of the information furnished therein.*

(b) *State any four consequences which will happen in a partnership after adjudication of a partner as an insolvent in a court of Law.*

(c) *Sunshine Limited went into voluntary liquidation on 31st March, 2021. A liquidator was appointed for the same. The remuneration payable to the Liquidator is as follows:*

(i) 2% on Assets realized

(ii) 3% on payment or Preferential Creditors.

(iii) 3% on payment to Unsecured Creditors.

The Assets realized was ₹ 45,00,000. The outstanding to be settled is as follows:

(i) Preferential Creditors ₹ 12,50,000

(ii) Secured Creditors ₹ 20,00,000

(iii) Unsecured Creditors ₹ 15,00,000

You are required to calculate Remuneration payable to Liquidator.

(d) *Following is an extract from Trial Balance of Overseas Bank as at 31st March,2021:*

Bills discounted	*(₹)*	*13,87,500*	*(Dr.)*
Rebate on bills discounted not due on March 31st, 2020	*(₹)*	*25,180*	*(Cr.)*
Discount received	*(₹)*	*1,08,709*	*(Cr.)*

An analysis of the bills discounted is as follows:

S. No	*Amount (₹)*	*Due Date*	*Rate of Discount (%)*
(i)	*2,40,000*	*05/05/2021*	*14*
(ii)	*3,86,000*	*12/07/2021*	*13*
(iii)	*2,52,000*	*25/08/2021*	*15*
(iv)	*5,09,500*	*06/07/2021*	*16*

Calculate Rebate on Bills Discounted (Nearest rupees) outstanding as at 31-3-2021 and the amount of discount to be credited to the profit and loss account.

(e) *Pass the necessary Journal Entries in the books of Head Office to rectify / adjust the following for the year ended 31st March, 2021:*

   (i) *Head Office made payment of ₹ 50,000 for purchase of goods by Branch and debited the same to its own Purchases Account.*

   (ii) *A remittance of ₹ 27,500 sent by the Branch on 28th March, 2021 was not received till 2nd April, 2021.*

   (iii) *Goods sent to Branch costing ₹ 12,500 were stolen during transit. The Branch Manager refused to accept any liability.*

   (iv) *Head Office paid ₹ 7,500 as Salary to Branch Accountant but the amount paid has been debited by the Hand Office to Salaries and Wages Account.*

(4 Parts x 4 Marks = 16 Marks)

Answer

(a) The framework for Preparation and Presentation of Financial Statements suggests that the financial statements should maintain the following qualitative characteristics to improve the usefulness of the information furnished therein:

1. **Understandability**: The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities and accounting.

2. **Relevance:** The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its misstatement (i.e., omission or erroneous statement) can influence economic decisions of a user.

3. **Reliability:** To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless transactions and events reported are faithfully represented. The reporting of transactions and events should be neutral, i.e. free from bias and be reported on the principle of 'substance over form'. The information in financial statements must be complete. Prudence should be exercised in reporting uncertain outcome of transactions or events.

4. **Comparability:** Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should

permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

5. **Faithful Representation (True and Fair view):** Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The framework does not deal directly with this concept of true and fair view, yet application of the principal qualitative characteristics and appropriate accounting standards normally results in financial statements portraying true and fair view of information about an enterprise.

(b) If a partner goes insolvent then the following are the consequences:

1. The partner adjudicated as insolvent ceases to be a partner on the date on which the order of adjudication is made.
2. The firm is dissolved on the date of the order of adjudication unless there is a contract to the contrary.
3. The estate of the insolvent partner is not liable for any act of the firm after the date of the order of adjudication, and
4. The firm cannot be held liable for any acts of the insolvent partner after the date of the order of adjudication.

(c) Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
2% on Assets realized	(45,00,000 x 2%)	90,000
3% on payment made to Preferential creditors	(12,50,000 x 3%)	37,500
3% on payment made to Unsecured creditors (Refer W.N)		32,694
Total Remuneration payable to Liquidator		1,60,194

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= ₹ 45,00,000– ₹ 20,00,000 – ₹ 12,50,000 – ₹ 90,000 – ₹ 37,500

= ₹ 11,22,500

Since cash balance is available for unsecured creditors, Liquidator's remuneration on payment to unsecured creditors = ₹ 11,22,500 X 3 /103= ₹ 32,694 (rounded off)

(d) In order to determine the amount to be credited to the Profit and Loss A/c it is necessary to first ascertain the amount attributable to the unexpired portion of the period of the respective bills. The workings are as given below:

S. No.	Amount (₹)	Due Date	Unexpired portion from 31/03/2021 (Days)	Rate of Discount (%)	Unexpired Rebate on Bill Discounted (₹)
(i)	2,40,000	05/05/2021	35	14	3,222
(ii)	3,86,000	12/07/2021	103	13	14,160
(iii)	2,52,000	25/08/2021	147	15	15,224
(iv)	5,09,500	06/07/2021	97	16	21,664
	Total				54,270

The amount of discount to be credited to the Profit and Loss Account will be:

	₹
Transfer from Rebate on bills	
discount as on 31-3-2021	25,180
Add: Discount received during the year ended 31-3-2021	1,08,709
	1,33,889
Less: Rebate on bills discounted as on 31.3.2021	
(3,222 + 14,160 + 15,224+ 21,664)	(54,270)
	79,619

(e) Journal Entries in the books of Head Office

	Particulars		*Dr. Amount* ₹	*Cr. Amount* ₹
(i)	Branch account	Dr.	50,000	
	To Purchases account			50,000
	(Being rectification of entry for payment for goods purchased by branch wrongly debited to purchase account)			
(ii)	Cash in transit account	Dr.	27,500	
	To Branch account			27,500
	(Being remittance by branch not received by 31st March, 2021)			
(iii)	Loss of goods due to theft during transit	Dr.	12,500	
	To Purchases* account			12,500
	(Being goods lost on account of theft during transit)			

(iv)	Branch account	Dr.	7,500	
	To Salaries & Wages			7,500
	(Being salary paid by the H.O for branch)			

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