IPCC – MAY 2018

PAPER 5: ADVANCED ACCOUNTANCY

Test Code: OTS 5
Branch (MULTIPLE) Date : 13.4

(100 Marks)

Note: ***Question No.1 is compulsory. Candidates are required to answer any five questions from the remaining six questions.***

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Question 1

a. Cash basis of accounting

Cash purchase of article B and cash sale of article A is recognized in period 1 while purchase of article A on payment and sale of article B on receipt is recognized in period 2.

Profit and Loss Account

2

		Rs.			Rs.
Period 1	*To Purchase*	*2,000*	*Period 1*	*By Sale*	*60,000*
	To Net Profit	*58,000*			
		60,000			*60,000*
Period 2	*To Purchase*	*50,000*	*Period 2*	*By Sale*	*2,500*
				By Net Loss	*47,500*
		50,000			*50,000*

Accrual basis of accounting

Credit purchase of article A and cash purchase of article B and cash sale of article A and credit sale of article B is recognized in period 1 only.

Profit and Loss Account

2

		Rs.			Rs.
Period 1	*To Purchase*	*52,000*	*Period 1*	*By Sale*	*62,500*
	To Net Profit	*10,500*			
		62,500			*62,500*

(c) Consistency: The principle of consistency refers to the practice of using same accounting policies for similar transactions 1 in all accounting periods. The consistency improves comparability of financial statements through time. An accounting policy can be changed if the change is required

(i) by a statute or

(ii) by an accounting standard or

(iii) For more appropriate presentation of financial statements.

b.

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.**(2 marks)**

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 1st March, 2013 i.e. before the balance sheet date. Registration of the sale deed on 15th April, 2013, simply provides additional information relating to the conditions existing at the balance sheet date. Therefore, adjustment to assets for sale of land is necessary in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013.**(3 marks)**

c.

AS 12 'Accounting for Government Grants' regards two methods of presentation, of grants related to specific fixed assets, in financial statements as acceptable alternatives. Under the first method, the grant of ` 5,00,000 can be shown as a deduction from the gross book value of the machinery in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. .**(1 marks)**

Under the second method, it can be treated as deferred income which should be recognised in the profit and loss statement over the useful life of 10 years in the proportions in which depreciation on machinery will be charged. The deferred income pending its apportionment to profit and loss account should be disclosed in the balance sheet with a suitable description e.g., 'Deferred government grants' to be shown after 'Reserves and Surplus' but before 'Secured Loans'. .**(2 marks)**

The following should also be disclosed: .**(2 marks)**

i. the accounting policy adopted for government grants, including the methods of presentation in the financial statements;

ii. the nature and extent of government grants recognised in the financial statement of ` 5 lakhs is required to be credited to the profit and loss statement of the current year.

d.

As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment· amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as: .**(3 marks)**

Annuity Factor (Year 1 to Year 5)	3.36 (approx.)
Present Value of minimum lease payments (`3 lakhs each year)	`10.08 lakhs (approx.)

Thus present value of minimum lease payments is `10.08 lakhs and the fair value of the machine is ` 30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for five years. Therefore, lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. .**(2 marks)**

Question 2 **(7 marks)**

Particulars	*Cash*	*Creditors*		*Capitals*	
	`	`	*P (`)*	*Q (`)*	*R (`)*
Balance due after loan		16,000	52,000	43,500	32,000
January					
Balance available	9,000				
Realization less expenses and cash retained	10,000				
Amount available and paid	19,000	(16,000)	-	-	3,000
Balance due	-	-	52,000	43,500	29,000
February					
Opening Balance	6,000				
Expenses paid and cash carried forward	3,000				
Available for distribution	3,000				
Cash paid to Q and Machinery given to R			-	3,000	9,000

Balance due	-		52,000	40,500	20,000

March					
Opening Balance	2,000				
Amount realized less expenses	87,300				
Amount paid to partners	89,300		41,689	32,767	14,844
Loss			10,311	7,733	5,156

Working Note:

(i) **Highest Relative Capital Basis (4 marks)**

	P (`)	*Q (`)*	*R (`)*
Scheme of payment for January 2014			
Balance of Capital Accounts	65,000	50,500	32,000
Less: Loans	(13,000)	(7,000)	-
(A)	52,000	43,500	32,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	14,500	16,000
Capital in profit sharing ratio, taking P's capital as base (B)	52,000	39,000	26,000
Excess of R's capital and Q's Capital (A – B) (i)		4,500	6,000
Profit Sharing Ratio		3	2
Capital / Profit sharing Ratio		1,500	3,000
Capital in profit sharing ratio, taking Q's capital as base (ii)		4,500	3,000
Excess of R's Capital over Q's capital (i – ii)			3,000

(ii) **Scheme of distribution of available cash for March: (5 marks)**

	P (`)	*Q (`)*	*R (`)*
Balance of Capital Accounts end of February (A)	52,000	40,500	20,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	13,500	10,000
Capital in profit sharing ratio, taking R's capital as base (B) (i)	40,000	30,000	20,000
Excess of P's Capital and Q's Capital (A – B) (i)	12,000	10,500	
Profit Sharing Ratio	4	3	
Capital / Profit sharing Ratio	3,000	3,500	
Capital in profit sharing ratio taking P's capital as base (ii)	12,000	9,000	
Excess of Q's Capital over P's Capital (i – ii)	-	1,500	
Payment ` 1500 (C)		(1,500)	
Balance of Excess Capital (i –C)	12,000	9,000	

Payment ` 21000 (D)	(12,000)	(9,000)	
Balance due (A – C – D)	40,000	30,000	20,000
Balance cash Payment (` 89,300 – ` 22,500) = ` 66,800 (E)	(29,689)	(22,267)	(14,844)
Total Payment (` 89,000) (C + D +E) (iii)	41,689	32,767	14,844
Loss (A – iii)	10,311	7,733	5,156

Question 3

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

Revenue Account for the year ended 31st March, 2017 (Marine Insurance Business) (3 marks)

	Schedule	*Current Year*	*Previous Year*
		`	`
Premiums earned (net)	1	24,33,050	
Profit/(Loss) on sale/redemption of investments		-	
Others (to be specified)		-	
Interest, Dividends and Rent – Gross (Net + TDS) (1,10,000 +24,000)		1,34,000	
Total (A)		25,67,050	
Claims incurred (net)	2	17,91,000	
Commission	3	1,36,000	
Operating expenses related to Insurance business	4	3,22,000	
Total (B)		22,49,000	
Operating Profit from Marine Insurance business (A-B)		**3,18,050**	

Schedules forming part of Revenue Account (2 marks)

	Current Year	*Previous Year*
	`	`
Schedule –1		
Premium earned (net) (22,60,000 +3,47,000)		

Total Premiums earned	26,07,000
Less: Premium on reinsurance ceded	(2,68,000)
Total Premium earned (net)	23,39,000
Change in provision for unexpired risk (Required provision – existing reserve)	
[(` 23,39,000 +5% of 23,39,000 i.e. 24,55,950) – ` 25,50,000)]	94,050
Net Premium earned	24,33,050
Schedule – 2	
Claims incurred (net)	17,91,000
Schedule – 3	
Commission paid	
Direct	1,40,000
Add: Re-insurance accepted	12,000
Less: reinsurance ceded	(16,000)
	1,36,000
Schedule – 4	
Operating expenses related to insurance business	
Employees' remuneration and welfare benefits	2,50,000
Rent, Rates and Taxes	15,000
Printing and Stationery	22,000
Legal and Professional charges	35,000
	3,22,000

Working Notes: (5 marks)

1.	Total Premium Income	*Direct*	*Re-insurance*
		`	`
	Received	22,00,000	3,40,000
		23,80,000	3,68,000
	Less: Receivable on 1st April, 2016	(1,20,000)	(21,000)
		22,60,000	3,47,000

Total premium income 22,60,000 + 3,47,000 = 26,07,000

2.	Premium Expense on reinsurance	`
	Premium Paid during the year	2,50,000
	Add: Payable on 31st March, 2017	40,000
		2,90,000
	Less: Payable on 1st April, 2016	(22,000)
		2,68,000

3.	Claims Paid	
	Direct Business	16,50,000
	Re-insurance	1,25,000
	Legal Expenses	15,000
		17,90,000
	Less: Re-insurance claims received	(1,05,000)
		16,85,000
4.	Claims outstanding as on 31st March, 2017	
	Direct	1,90,000
	Re-insurance	24,000
		2,14,000
	Less: Recoverable from Re-insurers on 31stMarch, 2017	(10,000)
		2,04,000
5.	Claims outstanding as on 1st April, 2016	
	Direct	98,000
	Re-insurance	12,000
		1,10,000
	Less: Recoverable from Re-insurers on 1st April, 2016	(12,000)
		98,000

(b) The amount of rebate on bills discounted as on 31 st March, 2017 the period which has not been expired upto that day will be calculated as follows: **(2 marks)**

Discount on ` 2,90,000 for 62 days @ 10%	4,926
Discount on ` 8,75,000 for 69 days @ 10%	16,541
Discount on ` 5,65,000 for 82 days @ 10%	12,693
Discount on ` 8,12,000 for 92 days @ 10%	20,467
Discount on ` 6,50,000 for 96 days @ 10%	17,096
Total	71,723

Note: The due date of the bills discounted is included in the number of days above.

The amount of discount to be credited to the profit and loss account will be: (1 marks)

	`
Transfer from rebate on bills discounted as on 1.4. 2016	78,566
Add: Discount received during the year	1,60,572
	2,39,138
Less: Rebate on bills discounted as on 31.03. 2017 (as above)	(71,723)
	1,67,415

Journal Entries (3 marks)

		`	`
Rebate on bills discounted A/c	Dr.	78,566	
To Discount on bills A/c			78,566
(Transfer of opening unexpired discount on 31.03. 2016)			
Discount on bills A/c	Dr.	71,723	
To Rebate on bills discounted			71,723
(Unexpired discount on 31.03. 2017 taken into account)			
Discount on Bills A/c	Dr.	1,67,415	
To P & L A/c			1,67,415
(Discount earned in the year, transferred to P&L A/c)			

Question 4
a.

2 marks

Departmental Trading Account
for the year ending on 31st March, 2016

Particulars	₹	Particulars	₹
To Opening stock	2,40,000	By Sales	9,60,000
To Purchases	5,40,000	By Shortage	3,600
To Gross Profit c/d	2,70,450	By Closing stock (₹ 1,20,540 – ₹33,690)	86,850
	10,50,450		10,50,450

3 marks

Memorandum Departmental Stock Account (At Selling Price)

Particulars	₹	Particulars	₹
To Balance b/d (₹2,40,000 + ₹96,000)	3,36,000	By Profit & Loss A/c (Cost of Shortage)	3,600
To Purchases	5,40,000	By Memorandum Departmental Mark-up A/c (Loading on Shortage)	1,440
To Memorandum Departmental Mark-up A/c (Mark-up on Purchases)	2,16,000	By Mark-up A/c (Mark Down in Current Purchases)	4,200
		By Debtors A/c (Sales)	9,60,000
		By Memorandum Departmental Mark-up A/c (Mark-Down on Opening Stock)	2,220
		By Balance c/d	1,20,540
	10,92,000		10,92,000

3 marks

Memorandum Departmental Mark up Account

	₹		₹
To Memorandum Departmental Stock A/c (₹3,600 x 40/100)	1,440	By Balance b/d (₹3,36,000 x 40/140)	96,000
To Memorandum Departmental Stock A/c	4,200	By Memorandum Departmental Stock A/c (₹ 5,40,000 x 40/100)	2,16,000
To Memorandum Departmental Stock A/c	2,220		
To Gross Profit transferred to Profit & Loss A/c	2,70,450		
To Balance c/d (₹ 1,20,540 + ₹ 1,050)* x 40/140 – (₹ 1,050)	33,690		
	3,12,000		3,12,000

*[₹4200 x 12,000/48,000 = 1,050]

Working Notes:

(i)		Calculation of Cost of sales	₹
	A	Sales as per Books	9,60,000
	B	*Add:* Mark-down in opening stock (given)	2,220
	C	*Add:* Mark down in sales out of current purchases (₹4,200 x 36,000/48,000)	3,150
	D	Value of sales if there was no mark down (A+B+C)	9,65,370
	E	*Less:* Gross profit (40/140 of ₹9,65,370) subject to Mark down (₹ 2,220 + ₹ 3,150)	2,75,820
	F	Cost of sales (D-E)	6,89,550

(ii)		Calculation of Closing Stock	₹
	A	Opening stock	2,40,000
		Add: Purchases	5,40,000
		Less Cost of sales	6,89,550
	D	Less: Shortage	3,600
	E	Closing Stock (A+B-C-D)	86,850

b.

4 marks

Pune Branch Trading and Profit and Loss Account

Particulars	₹	*Particulars*	₹
To Opening Stock (including ₹10,000 from Goa Branch)	40,000	By Sales (including ₹20,000 to Goa Branch)	2,80,000
To Purchases	2,00,000	By Closing Stock (including ₹5,000 from Goa Branch)	30,000
To Chargeable Expenses	15,000		
To Gross Profit c/d (before making adjustment for unrealised profit)	55,000		
	3,10,000		3,10,000
To Stock Reserve (for unrealised profit in Closing Stock lying at Goa Branch). (₹4,000 x 25/100)	1,000	By Gross Profit b/d	55,000
To Office & Adm. Expenses	13,250	By Stock Reserve (for unrealised profit in Opening Stock lying at Goa Branch) (₹ 17,000 x 25/100)	4,250
To Selling & Distribution Expenses	15,000		
To Net Profit	30,000		
	59,250		59,250

4 marks

Goa Branch Trading and Profit and Loss Account

For the year ending on ……….

Particulars	₹	*Particulars*	₹
To Opening Stock (including ₹17,000 from Pune Branch)	30,000	By Sales (including ₹15,000 to Pune Branch)	2,95,625
To Purchases	2,50,000	By Closing Stock (including ₹ 4,000 from Goa Branch)	43,500
To Chargeable Expenses	27,500		
To Gross Profit c/d (before making adjustment for unrealised profit)	31,625		
	3,39,125		3,39,125
To Stock Reserve (for unrealised profit on Closing Stock lying at Pune Branch). (₹5,000 x 20/100)	1,000	By Gross Profit b/d	31,625
To Office & Adm. Expenses	7,000	By Stock Reserve (for unrealised profit on Opening Stock at Pune Branch) (₹10,000 x 20/100)	2,000
To Selling & Distribution Expenses	10,000		
To Net Profit	15,625		
	33,625		33,625

Question 5
a.

10 marks

Journal Entries in the books of M/s. Lion Ltd.

	Particulars		Debit (₹ in lakhs)	Credit (₹ in lakhs)
(i)	8% Preference share capital A/c (₹100 each)	Dr.	400	
	To 8% Preference share capital A/c (₹ 80 each)			320
	To Capital Reduction A/c			80
	(Being the preference shares of ₹100 each reduced to ₹80 each as per the approved scheme)			
(ii)	Equity share capital A/c (₹10 each)	Dr.	1,000	
	To Equity share capital A/c (₹ 2 each)			200
	To Capital Reduction A/c			800
	(Being the equity shares of ₹10 each reduced to ₹2 each)			
(iii)	Capital Reduction A/c	Dr.	32	
	To Equity share capital A/c (₹2 each)			32
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of ₹2 each)			
(iv)	6% Debentures A/c	Dr.	300	
	To Freehold property A/c			300
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c	Dr.	24	
	To Bank A/c			24
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	150	
	To Capital Reduction A/c			150
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	250	
	To Investments A/c			200
	To Capital Reduction A/c			50
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	300	
	To Equity share capital A/c (₹ 2 each)			90
	To Capital Reduction A/c			210

	(Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹2 each)			
(ix)	Capital Reduction A/c	Dr.	972	
	To Profit and loss A/c			522
	To Trade receivables A/c (450x 40%)			180
	To Inventories-in-trade A/c (300x 80%)			240
	To Bank A/c (600 x 5%)			30
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
(x)	Capital Reduction A/c		286	
	To Capital reserve A/c			286
	(Being balance transferred to capital reserve account as per the scheme)			

(b) Capital Reduction Account

Dr. Cr.

	(₹ in lakhs)		(₹ in lakhs)
To Equity Share Capital	32	By Preference Share Capital	80
To Trade receivables	180	By Equity Share Capital	800
To Finished Goods	240	By Freehold Property	150
To Profit & Loss A/c	522	By Bank	50
To Bank A/c	30	By Director's Loan	210
To Capital Reserve	286		
	1,290		1,290

3 marks

(c) Notes to Balance Sheet

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Authorised:		
	200 lakhs Equity shares of ₹ 2 each		400

3 marks

	8 lakhs 8% Preference shares of ₹ 80 each		640
			1,040
	Issued:		
	161 lakhs equity shares of ₹2 each		322
	4 lakhs Preference Shares of ₹80 each		320
			642
2.	Tangible Assets		
	Freehold Property	550	
	Less: Utilized to pay Debenture holders	(300)	
		250	
	Add: Appreciation	150	400
	Plant and Machinery		200
			600

Question 6

a. (8 marks)

Journal Entries
In the books of Gamma Ltd.

			Dr.	*Cr.*
			₹ in lakhs	
1	Bank A/c	Dr.	12,600	
	To Investments A/c			12,000
	To Profit and Loss A/c			600
	(Being Investments sold and profit being credited to Profit and Loss Account)			
2	Bank A/c	Dr.	8,000	
	To Bank Loan A/c			8000
	(Being Loan taken from Bank to finance Buyback)			

3	10% Redeemable Preference Share Capital A/c	Dr.	10,000	
	Premium payable on Redemption of Preference Shares A/c	Dr.	1,000	
	To Preference Shareholders A/c			11,000
	(Being amount payable on redemption of Preference shares at a Premium of 10%)			
4	Securities Premium A/c	Dr.	1,000	
	To Premium payable on Redemption of Preference Shares A/c			1,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)			
5	Equity Share Capital A/c	Dr.	8,000	
	Premium payable on Buyback A/c	Dr.	8,000	
	To Equity Share buy back A/c			16,000
	(Being the amount due on buy-back)			
5	Securities Premium A/c (3,200 – 1,000)	Dr.	2,200	
	General Reserve A/c (balancing figure)	Dr.	5,800	
	To Premium payable on Buyback A/c			8,000
	(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves)			
6	Bank A/c	Dr.	8,000	
	To Bank Loan A/c			8000
	(Being Loan taken from Bank to finance Buyback)			
7	Preference Shareholders A/c	Dr.	11,000	
	Equity Shares buy back A/c	Dr.	16,000	
	To Bank A/c			27,000
	(Being payment made to Preference Shareholders and Equity Shareholders)			
8	General Reserve Account (10,000 + 8,000)	Dr.	18,000	
	To Capital Redemption Reserve Account			18,000
	(Being amount transferred to Capital Redemption Reserve to the extent of face value of preference shares redeemed and equity shares bought back)			

b.

Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriter

Particulars	*No. of shares*				
	L	*M*	*N*	*O*	*Total*
Gross liability	80,000	60,000	40,000	20,000	2,00,000
Less: Marked Applications (excluding firm underwriting)	(55,000)	(40,000)	(42,000)	(8,000)	(1,45,000)
Balance	25,000	20,000	(2,000)	12,000	55,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,000)	(750)	2,000	(250)	-
Balance	24,000	19,250	-	11,750	55,000
Less: Unmarked application including firm underwriting (WN)	(7,200)	(5,400)	(3,600)	(1,800)	(18,000)
Net Liability	16,800	13,850	(3,600)	9,950	37,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,800)	(1,350)	3,600	(450)	-
Balance	15,000	12,500	-	9,500	37,000
Add: Firm Underwriting	5,000	4,000	2,000	2,000	13,000
Total Liability	20,000	16,500	2,000	11,500	50,000

6 marks

Working Note:

Particulars	*No. of shares*
Applications received from public	1,50,000
Add: Firm underwriting	13,000
Total Applications	1,63,000
Less: Marked application	(1,45,000)
Unmarked application including firm underwriting	18,000

2 marks

Question 7

a.

(a) According to para 6 of AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

2 marks

Also para 10 of AS 16 "Borrowing Costs" states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost

= ₹ 11,00,000 – ₹ 2,00,000

= ₹ 9,00,000

Sr. No.	*Particulars*	*Nature of assets*	*Interest to be Capitalized (₹)*	*Interest to be charged to Profit & Loss Account (₹)*
i	Construction of factory building	Qualifying Asset*	9,00,000x40/100 = ₹ 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = ₹ 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = ₹ 2,25,000
	Total		₹ 3,60,000	₹ 5,40,000

2 marks

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

b.

As per para 3 of AS 19 ' Leases' the interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of

(a) the minimum lease payments under a finance lease from the standpoint of the lessor; and

(b) any unguaranteed residual value accruing to the lessor,

to be equal to the fair value of the leased asset.

Present value at discount rate of 10%

Year	Lease Payments (₹)	Disc. Factor (10%)	Present Value (₹)
1	80,000	0.909	72,720
2	80,000	0.826	66,080
3	80,000	0.751	60,080
4	80,000	0.683	54,640
5	80,000	0.621	49,680
5	40,000	0.621	24,840
5	24,000	0.621	14,904
	Total		3,42,944

2 marks

Present value at discount rate of 14%

Year	Lease Payments (₹)	Disc. Factor (10%)	Present Value (₹)
1	80,000	0.877	70,160
2	80,000	0.769	61,520
3	80,000	0.675	54,000
4	80,000	0.592	47,360
5	80,000	0.519	41,520
5	40,000	0.519	20,760
5	24,000	0.519	12,456
	Total		3,07,776

2 marks

$$\text{Interest Rate Implicit on Lease} = 10\% + \frac{14\% - 10\%}{3,42,944 - 3,07,776} \times (3,42,944 - 3,20,000)$$

$$= 10\% + 2.609\% = 12.609\% \text{ or say } 12.61\%$$

c.

Computation of provision to be made by a Bank

	₹
Outstanding Value of Doubtful Asset (up to 3 years)	7,24,000
Less :Value of security (excluding ECGC cover)	(₹ 1,75,000)
Sub Total	₹ 5,49,000
Less :ECGC Cover (subject to ₹ 1,50,000 maximum)	(₹ 1,50,000)
Unsecured Portion	₹ 3,99,000
Provision:	
For unsecured portion @ 100% of ₹ 3,99,000	₹ 3,99,000
For secured portion @ 40% of ₹ 1,75,000	₹ 70,000
Total Provision	₹ 4,69,000

4 marks

(d) If the firm is dissolved before the term expires, as is the case, W being a partner who has paid premium on admission will have to be repaid / refunded

The criteria for calculation of refund amount are:

(i) Terms upon which admission was made,

(ii) The time period for which it was agreed that the firm will not be dissolved,

(iii) The time period for which the firm has already been in existence. **4 marks**

No claim for refund will arise if:

(i) The firm is dissolved due to death of a partner,

(ii) If the dissolution of the firm is basically because of misconduct of W,

(iii) If the dissolution is through an agreement and such agreement does not have a stipulation for refund of premium.

e.

As per AS 12, refund of Government Grant is treated in the following manner:

(a) When Government Grant is related to Revenue:

(i) The amount of refund is first adjusted against any unamortized deferred credit balance still remaining in respect of the Grant

(ii) Any excess refund over such deferred credit balance or where no deferred credit exists, is immediately charged to Profit & Loss Account. **4 marks**

(b) When Government Grant is related to specific Fixed Asset:

(i) The amount of refund will increase the Book Value of the Asset, if at the time of receipt of Grant, the cost of asset was reduced by the amount of Grant.

(ii) If at the time of receipt, the Grant amount was credited to Deferred Grant Account, then the amount of refund will first reduce the unamortized balance of Deferred Grant Account, any excess refund will reduce the Capital Reserve.

(c) When the Government Grant is in the nature of Promoter's Contribution:

Capital Reserve will be reduced by the amount of refund.

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