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SUGGESTED SOLUTION
IPCC NOVEMBER 2016 EXAM
ADVANCED ACCOUNTS
Test Code - I N J1 1 2 8
BRANCH - (MULTIPLE) (Date : 09.10.2016)

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Answer-1 (a) :

According to para 8.2 of Accounting Standard 4 “Contingencies and Events Occurring after the Balance Sheet Date”, adjustments to assets and liabilities are required forevents occurring after the balance sheet date that provide additional informationmaterially affecting the determination of the amounts relating to conditions existing atthe balance sheet date.

In the given case, though the debtor became insolvent after balance sheet date, yet hehad suffered heavy loss (not covered by the insurance), before the balance sheet dateand this loss was the cause of the insolvency of the debtor.

Therefore the company must make full provision for bad debts amounting Rs. 5 lakhs inits final accounts for the year ended 31st March, 2014.

(4 Marks)**Answer-1 (b) :****(a) Calculation of profit or loss to be recognized in the books of Sterling Limited**

	Rs.
Forward contract rate	48.85
Less: Spot rate	<u>(47.50)</u>
Loss	<u>1.35</u>
Forward Contract Amount	\$20,000
Total loss on entering into forward contract = (\$20,000 × Rs. 1.35)	Rs. 27,000
Contract period	4 months
Loss for the period 1 st January, 2012 to 31 st March, 2012 i.e. 3 months falling in the year 2011-2012 will be Rs. 27,000 × $\frac{3}{4}$ =	Rs. 20,250
Balance loss of Rs. 6,750 (i.e. Rs. 27,000 – Rs. 20,250) for the month of April, 2012 will berecognized in the financial year 2012-2013.	

(3 Marks)

- (b) As per AS 11 on ‘The Effects of Changes in Foreign Exchange Rates’, all foreigncurrency transactions should be recorded by applying the exchange rate on the date oftransactions. Thus, goods purchased on 1.1.2011 and corresponding creditor would berecorded at Rs. 4,50,000 (i.e. \$10,000 × Rs. 45)

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditor of US \$10,000 on 31.3.2011 will bereported at Rs. 4,40,000 (i.e. \$10,000 × Rs. 44) and exchange profit of Rs. 10,000 (i.e.4,50,000 – 4,40,000) should be credited to Profit and Loss account in the year 2010-11.

On 7.7.2011, creditor of \$10,000 is paid at the rate of Rs. 43. As per AS 11, exchangedifference on settlement of the account should also be transferred to Profit and Lossaccount. Therefore, Rs. 10,000 (i.e. 4,40,000 – 4,30,000) will be credited to Profit andLoss account in the year 2011-12.

(3 Marks)**Answer-1 (c) :**

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 partof the cost of that asset. The amount of borrowing costs eligible for capitalisation should bedetermined in accordance with this Standard. Other borrowing costs should be recognised asan expense in the period in which they are incurred.

Also para 10 of AS 16 “Borrowing Costs” states that to the extent that funds are borrowedspecifically for the purpose of obtaining a qualifying asset, the amount of borrowing costseligible 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 ofthose borrowings.

Thus, eligible borrowing cost
= Rs. 11,00,000 – Rs. 2,00,000

= Rs. 9,00,000

(2 Marks)

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

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

(3 Marks)

Answer-1 (d) :

Research Expenditure – According to AS 26 'Intangible Assets', the expenditure on research of new process design for its product Rs. 10 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. It is presumed that the entire expenditure is incurred in the financial year 2012-13. Hence, it should be written off as an expense in that year itself.

Cost of internally generated intangible asset – it is given that development phase expenditure amounting Rs. 8 lakhs incurred upto 31st March, 2013 meets asset recognition criteria. As per AS 26, for measurement of such internally generated intangible asset, fair value should be estimated by discounting estimated future net cash flows.

Savings (after tax) from implementation of new design for next 5 years	Rs. 2 lakhs p.a.
Company's cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908
Present value of net cash flows (Rs. 2 lakhs x 3.7908)	Rs. 7.582 lakhs

(3 Marks)

The cost of an internally generated intangible asset would be lower of cost value Rs. 8 lakhs or present value of future net cash flows Rs. 7.582 lakhs.

Hence, cost of an internally generated intangible asset will be Rs. 7.582 lakhs.

The difference of Rs. 0.418 lakhs (i.e. Rs. 8 lakhs – Rs. 7.582 lakhs) will be amortized by Plymouth for the financial year 2012-13.

Amortisation - The company can amortise Rs. 7.582 lakhs over a period of five years by charging Rs. 1.516 lakhs per annum from the financial year 2013-2014 onwards.

(2 Marks)

Answer-2 :

Journal Entries In the books of VRK & Co.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Goodwill A/c	Dr. 2,00,000	
Building A/c	Dr. 4,00,000	
Machinery A/c	Dr. 9,00,000	
Furniture A/c	Dr. 80,000	
Stock A/c	Dr. 4,80,000	

Debtors A/c	Dr.	6,40,000	
Cash at Bank A/c	Dr.	1,20,000	
Cash in hand A/c.	Dr.	80,000	
Due from Raj & Co. A/c.	Dr.	4,00,000	
To Creditors A/c.			4,80,000
To Bank Loan A/c.			3,20,000
To Vinod's Capital A/c.			16,35,000
To Raj's Capital A/c.			8,65,000

(Being the Assets and Liabilities of Vinod & Co. taken over)

Goodwill A/c	Dr.	1,64,000	
Machinery A/c.	Dr.	8,00,000	
Furniture A/c.	Dr.	24,000	
Stock A/c	Dr.	5,60,000	
Debtors A/c	Dr.	8,00,000	
Cash at Bank A/c	Dr.	3,60,000	
Cash in hand A/c	Dr.	40,000	
Advances A/c.	Dr.	2,40,000	
To Creditors A/c.			4,64,000
To Due to Vinod & Co. A/c			4,00,000
To Raj's Capital A/c.			14,16,000
To Kumar's Capital A/c.			7,08,000

(Being the Assets and Liabilities of Raj & Co. taken over)

Vinod's Capital A/c.	Dr.	1,82,000	
Raj's Capital A/c.	Dr.	1,21,334	
Kumar's Capital A/c.	Dr.	60,666	
To Goodwill A/c			3,64,000

(Being Goodwill written off)

Bank A/c	Dr.	7,39,666	
To Vinod's Capital A/c			6,77,000
To Kumar's Capital A/c			62,666

(Being the Cash brought in by Vinod and Kumar to make capitals proportionate)

Raj's Capital A/c	Dr.	7,39,666	
To Bank A/c.			7,39,666

(Being the excess capital withdraw by Raj)

Due to Vinod & Co. A/c	Dr.	400,000	
To Due from Raj & Co. A/c.			4,00,000

(Being the elimination of mutual indebtedness of the merged firms Vinod & Co., and Raj & Co.)

(3 Marks)

Balance Sheet of M/s VRK& Co. as at 31st March, 2016

Liabilities	Rs.	Assets	Rs.
Capitals:		Building	4,00,000
Vinod	21,30,000	Machinery	17,00,000
Raj	14,20,000	Furniture	1,04,000
Kumar	7,10,000	Stock	10,40,000
Creditors	9,44,000	Debtors	14,40,000
Bank Loan	3,20,000	Advances	2,40,000
		Cash at Bank	4,80,000

Cash in hand 1,20,000

55,24,000 55,24,000

(3 Marks)

Working Notes:

1. Statement showing the Computation of Purchase Consideration

Particulars	Vinod & Co. Rs.	Raj & Co. Rs.
A. Assets		
Goodwill	2,00,000	1,64,000
Building	4,00,000	
Machinery	9,00,000	8,00,000
Furniture	80,000	24,000
Stock	4,80,000	5,60,000
Debtors	6,40,000	8,00,000
Cash at Bank	1,20,000	3,60,000
Cash in hand	80,000	40,000
Due from Raj & Co.	4,00,000	—
Advances	—	2,40,000
	33,00,000	29,88,000
B. Liabilities		
Creditors	4,80,000	4,64,000
Due to Vinod & Co.	—	4,00,000
Bank Loan	3,20,000	—
	8,00,000	8,64,000
C. Purchase consideration (A-B)	25,00,000	21,24,000

(2 Marks)

2. Statement showing the Computation of Proportionate Capitals

Particulars	Rs.
A. M/s VRK & Co. (Rs. 25,00,000+Rs. 21,24,000)	46,24,000
B. Less: Goodwill Adjustment	<u>(3,64,000)</u>
C. Total Capital of new Firm	<u>42,60,000</u>
D. Vinod's proportionate Capital (Rs. 42,60,000 x 3/6)	21,30,000
E. Raj's proportionate Capital (Rs. 42,60,000 x 2/6)	14,20,000
F. Kumar's Proportionate Capital (Rs. 42,60,000 x 1/6)	7,10,000
	42,60,000

(2 Marks)

3. Statement showing the Computation of Capital Adjustments

Particulars	Vinod Rs.	Raj Rs.	Kumar Rs.	Total Rs.
Balance transferred from Vinod and Co.(W.N. 4)	16,35,000	8,65,000	-	25,00,000
Balance transferred from Raj and Co. (W.N.5)	-	14,16,000	7,08,000	21,24,000
	16,35,000	22,81,000	7,08,000	46,24,000

Less: Goodwill written off in the ratio of (3:2:1)	(1,82,000)	(1,21,334)	(60,666)	(3,64,000)
(a) Existing Capital	14,53,000	21,59,666	6,47,334	42,60,000
(b) Proportionate Capital (W.N. 2)	21,30,000	14,20,000	7,10,000	42,60,000
(c) Amount to be brought in (paid off) (a-b)	6,77,000	7,39,666	62,666	-

(2 Marks)

4. Capital Accounts (in the Books of Vinod & Co.)

Particulars	Vinod Rs.	Raj Rs.	Particulars	Vinod Rs.	Raj Rs.
To Capital A/c – M/s VRK & Co. (Transfer)	16,35,000	8,65,000	By Balance b/d	9,60,000	6,40,000
			By Reserve (3:1)	1,50,000	50,000
			By Goodwill (3:1)	1,50,000	50,000
			By Realisation A/c* -Profit (3:1)	3,75,000	1,25,000
	16,35,000	8,65,000		16,35,000	8,65,000

*For Building Rs. 2,00,000 (4,00,000 - 2,00,000) and Machinery Rs. 3,00,000 (9,00,000 - 6,00,000).

(2 Marks)

5. Capital Accounts (in the Books of Raj & Co.)

Particulars	Raj Rs.	Kumar Rs.	Particulars	Raj Rs.	Kumar Rs.
VRK & Co. (Transfer)	14,16,000	7,08,000	By Balance b/d	8,00,000	4,00,000
			By Reserve (2:1)	4,00,000	2,00,000
			By Goodwill (2:1)	1,09,334	54,666
			By Realisation A/c* -Profit (2:1)	1,06,666	53,334
	14,16,000	7,08,000		14,16,000	7,08,000

*For Machinery Rs. 1,60,000 (8,00,000 - 6,40,000).

(2 Marks)

Answer-3 (a) :

Journal Entries in the books of Kanika Ltd.

Particulars	Dr. (Rs.)	Cr. (Rs.)
At the end of 1 year		
Employees Compensation Expense A/c To Employee Stock Options Outstanding A/c (Being the compensation expenses recognized in respect of the ESOP)	Dr. 8,60,625	8,60,625
Profit and Loss A/c To Employee Compensation Expense A/c (Being Expenses of the year transferred to P & L A/c)	Dr. 8,60,625	8,60,625
At the end of Year 2		
Employees Compensation Expense A/c To Employee Stock Options Outstanding A/c. (Being expense in respect of ESOP recognized for the year 2)	Dr. 8,60,625	8,60,625

Profit and Loss A/c	Dr.	8,60,625	
To Employee Compensation Expense A/c			8,60,625
(Being Expenses of the year transferred to P & L A/c)			

At the end of Year 3			

Employees Compensation Expense A/c	Dr.	21,03,750	
To Employee Stock Options Outstanding A/c.			21,03,750
(Being expense in respect of ESOP recognized for the year 3)			

Profit and Loss A/c	Dr.	21,03,750	
To Employee Compensation Expense A/c			21,03,750
(Being Expenses of the year transferred to P & L A/c)			

(6 Marks)

Working Notes:

- No. of Employees expected to take options = $2,500 \times .80 \times .85 \times .90 \times .90 = 1377$
 - No. of Options to be granted to each employee = 500
 - Fair Value of each option = Rs. 5
 - Total Fair Value of Options expected to vest (A x B x C) = Rs. 34,42,500
 - Amount of Fair Value of Options to be recognized as an expense
 - 1st year $(34,42,500/4) = \text{Rs. } 8,60,625$
 - 2nd Year $(34,42,500 \times (2/4) - 8,60,625) = \text{Rs. } 8,60,625$
 - 3rd Year $[(1530 \text{ employees} \times 500 \text{ options} \times \text{Rs. } 5) - (8,60,625 + 8,60,625)] = \text{Rs. } 21,03,750$
- Since vesting period has been revised in 3rd year all the remaining liabilities in respect of employees stock option plan has been recognized at the end of 3rd year and data for the 4th year has been ignored.

(2 Marks)

Answer-3 (b) :

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

	P	Q	R	S	Total
Gross Liability	30,000	30,000	20,000	20,000	1,00,000
Less: Marked applications (excluding firm underwriting)	(19,000)	(10,000)	(21,000)	(8,000)	(58,000)
Balance	11,000	20,000	(1,000)	12,000	42,000
Less: Surplus of R allocated to P, Q and S in the ratio of 3:3:2	(375)	(375)	1,000	(250)	-
Balance	10,625	19,625	-	11,750	42,000
Less: Unmarked applications including firm underwriting	(5,700)	(5,700)	(3,800)	(3,800)	(19,000)
Net Liability	4,925	13,925	(3,800)	7,950	23,000
Less: Surplus of R allocated to P, Q and S in the ratio of 3:3:2	(1,425)	(1,425)	3,800	(950)	-
	3,500	12,500	-	7,000	23,000
Add: Firm underwriting	3,000	2,000	1,000	1,000	7,000
Total Liability	6,500	14,500	1,000	8,000	30,000

(6 Marks)

Calculation of underwriting commission:

As per law in force, underwriting commission is payable @ 5% of the issue price of shares.
 Underwriting commission payable to P and Q = 5% of (Rs. 15 × 30,000 shares) = Rs. 22,500.
 Underwriting commission payable to R and S = 5% of (Rs. 15 × 20,000 shares) = Rs. 15,000.

(1 Mark)

Working Note:

Application received from public	70,000 shares
Add: Shares underwritten firm	<u>7,000 shares</u>
Total application	77,000 shares
Less: Marked applications	<u>(58,000 shares)</u>
Unmarked application including firm underwriting	19,000 shares

(1 Mark)**Answer-4 :****Journal Entries**

		Rs. in lacs	
		Dr.	Cr.
Equity Share Capital (Rs. 10 each) A/c	Dr.	500	
To Equity Share Capital (Rs. 2.50 each) A/c			125
To Reconstruction A/c			375
(Conversion of all the equity shares into the same number of fully paid equity shares of Rs. 2.50 each as per scheme of reconstruction)			
Director's Remuneration Outstanding A/c	Dr.	10	
To Reconstruction A/c			10
(Outstanding remuneration foregone by the directors as per scheme of reconstruction)			
12% Debentures A/c	Dr.	400	
Debenture Interest Outstanding A/c.	Dr.	48	
To 13% Debentures A/c			400
To Reconstruction A/c			48
(Conversion of 12% debentures into 13% debentures, Debenture holders forgoing outstanding debenture interest)			
Bank A/c.	Dr.	125	
To Equity Share Application A/c			125
(Application money received for fully paid equity shares of Rs. 2.5 each from existing shareholders)			
Equity Share Application A/c.	Dr.	125	
To Equity Share Capital (Rs. 2.50 each) A/c			125
(Application money transferred to share capital)			
Trade payables A/c.	Dr.	165	
To Equity Share Capital (Rs. 2.50 each) A/c.			65
To Bank A/c			80
To Reconstruction A/c			20
(Trade payables for Rs. 65 lakhs accepting shares for full amount and those for Rs. 100 lakhs accepting cash equal to 80% of claim in full settlement)			
Capital Reserve A/c	Dr.	6	
To Reconstruction A/c			6
(Being the loss on reconstruction (balance in the Reconstruction A/c) transferred to Capital Reserve)			
Land and Building A/c	Dr.	46	
To Reconstruction A/c.			46
(Appreciation made in the value of land and building as per scheme of reconstruction)			

Reconstruction A/c	Dr.	505	
To Goodwill A/c			15
To Plant and Machinery A/c.			66
To Inventory A/c			22
To Trade receivables A/c			4
To Discount on issue of Debentures A/c			8
To Profit and Loss A/c			390

(Writing off losses and reduction in the values of assets as per scheme of reconstruction—W.N. 1)

(5 Marks)

Note: In a scheme of Reconstruction, Goodwill, Losses etc should be written off against the Reconstruction Account whether or not it is mentioned in the question.

Balance Sheet of Rocky Ltd. (and Reduced) as on 31st March, 2013.

Particulars	Note No.	Amount Rs.
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	315
(2) Non-Current Liabilities		
(a) Long-term borrowings - 13% Debentures		400
(3) Current Liabilities		
(a) Other current liabilities		11
(b) Short-term provisions		<u>33</u>
Total		<u>759</u>
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	2	491
(ii) Intangible assets	3	0
(2) Current assets		
(a) Current investments		
(b) Inventories		120
(c) Trade receivables		76
(d) Cash and cash equivalents(W.N.2)		<u>72</u>
Total		<u>759</u>

(5 Marks)

Notes to Accounts

		Rs.
1 Share Capital		
Equity Share Capital (Rs.2.50 each)	125	
Add: Fresh issue	125	
Add: Equity shares issued to trade payables	<u>65</u>	
1,26,000 Fully paid equity shares of Rs. 2.50 each		315
(26,000 shares have been issued for consideration other than cash)		
2 Tangible assets		
a) Land and Building	184	
Add: Amount of appreciation under scheme of reconstruction	<u>46</u>	230
b) Plant and Machinery	286	
Less: Amount written off under scheme of reconstruction dated.	<u>(66)</u>	220
c) Furniture and Fixtures		<u>41</u>
		<u>491</u>

3	Intangible assets		
	Goodwill	15	
	Less: Amount written off under scheme of reconstruction	<u>15</u>	-

(2 Marks)

Working Notes :

1. (Rs. in lacs)

Reconstruction Account

	Rs.		Rs.
To Goodwill	15	By Equity Share Capital A/c.	375
To Plant and Machinery	66	By Director's Remuneration Outstanding A/c.	10
To Inventory	22	By Debenture Interest Outstanding A/c	48
To Trade receivables	4	By Trade payables	20
To Discount on issue of Debentures	8	By Capital Reserve (Balancing Figure)	6
To Profit and Loss A/c	390	By Land and Building	46
	505		505

(3 Marks)

2. Cash at bank as on 31st March, 2013 (after reconstruction)

	Rs.
Cash at bank (before reconstruction)	27
Add: Proceeds from issue of equity shares	<u>125</u>
	152
Less: Payment made to trade payables (80% of Rs. 100 Lakhs)	<u>(80)</u>
	72

(1 Mark)

Answer-5 (a) :

Form B-RA (Prescribed by IRDA)
Sunlife General Insurance Company
Revenue Account for the year ended 31st March, 2013

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

(3 Marks)

Schedules forming part of revenue account

Schedule 1 : Premium Earned (Net)

Particulars	Rs.
Premium from direct business	65,75,000

Add: Premium on reinsurance accepted	9,50,000
Less: Premium on reinsurance ceded	<u>(4,75,000)</u>
Net premium	70,50,000
Adjustment for change in reserve for unexpired risks (W.N.2)	<u>(3,70,000)</u>
Total premium earned (net)	66,80,000

(2 Marks)

Schedule 2 : Claims Incurred (Net)

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

(3 Marks)

Schedule 3 : Commission

Particulars	Rs.
Commission paid on direct business	1,50,000
Add: Commission on reinsurance accepted	11,000
Less: Commission on reinsurance ceded	<u>(14,000)</u>
	<u>1,47,000</u>

(1 Mark)

Schedule 4 : Operating Expenses related to Insurance Business

Particulars	Rs.
Expenses of management (2,30,000 – 35,000 – 45,000)	<u>1,50,000</u>
	<u>1,50,000</u>

(1 Mark)

Working Notes:

1. Claims incurred

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

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

(1 Mark)

2. Change in reserve for unexpired risk

	Rs.
Opening reserve as on 31 st March, 2012	24,50,000

Less: Closing reserve as on 31 st March, 2013 (Rs. 70,50,000 x 40%)	<u>(28,20,000)</u>
Additional provision required	<u>(3,70,000)</u>
	(1 Mark)

Answer-5 (b) :

**Profit & Loss Account (an extract)
for the period ending 31.12. 2015**

	Rs.
Transfer from 'Rebate on bills discounted account (01.01. 2015)	4,170
Add: Discount for the year 2015	<u>42,956</u>
	47,126
Less: Rebate on bills discounted carried forward to the year 2016	<u>(6,637)</u>
	<u>40,489</u>
	(2 Marks)

Balance Sheet (an extract) as on 31.12.2015

	Rs.
Other liabilities & provisions:	
Rebate on bills discounted	6,637
	(1 Mark)

Working Note:

Statement of rebate on bills discounted as on 31.12. 2015

Due date	Amount (Rs.)	No. of days after 31.12.2015	Rate of discount (%)	Discount of the unexpired period
March 6 th	70,000	65	5	623
March 12 th	2,18,000	71	4.5	1,908
March 26 th	1,41,000	85	6	1,970
April 6 th	2,03,000	96	4	<u>2,136</u>
Total rebate on bills discounted to be carried forward				<u>6,637</u>

(1 Mark)

Answer-6 (a) :Pune Branch Account

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from debtors	35,000	
PrepaidInsurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	<u>1,000</u>	1,68,000
To Bank (expenses)			By Goods sent to branch (return of goods by the branch to H.O.)		1,000
Rent	2,000		By Closing Balances:		
Salaries	2,400		Stock		5,000
Petty Cash	1,000		Petty Cash		650
Insurance	<u>600</u>	6,000	Debtors		4,900
To Net Profit		78,950	Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4 x Rs. 600)		150
		1,81,600			1,81,600

(6 Marks)

Working Note:

Calculation of petty cash balance at the end:	Rs.
Opening balance	500
Add: Cash received form the Head Office	<u>1,000</u>
Total Cash with branch	1,500
Less : Spent by the branch	<u>850</u>
Closing balance	<u>650</u>

(2 Marks)**Answer-6 (b) :****Journal Entries**

		Rs.	Rs.
1.	Bank A/c To 11% Preference share application & allotment A/c. (Being receipt of application money on preference shares)	Dr. 10,00,000	10,00,000
2.	11% Preference share application & allotment A/c To 11% Preference Share Capital A/c (Being allotment of 1 lakh preference shares)	Dr. 10,00,000	10,00,000
3.	General Reserve A/c To Capital Redemption Reserve A/c (Being creation of capital redemption reserve for buy back of shares)	Dr. 30,00,000	30,00,000
4.	Equity share capital A/c Securities Premium A/c General reserve A/c To Equity shareholders/Equity Shares buy back A/c. (Amount payable to equity shareholder on buy back)	Dr. 40,00,000 Dr. 16,00,000 Dr. 32,00,000	88,00,000
5.	Equity shareholders/ Equity Shares buy back A/c To Bank A/c (Being payment made for buy back of shares)	Dr. 88,00,000	88,00,000

(5 Marks)**Working Notes:****1. Calculation of amount used from General Reserve Account**

Amount paid for buy back of shares (4,00,000 shares x Rs. 22)	Rs.
Less: Proceeds from issue of Preference Shares (1,00,000 shares x Rs.10)	88,00,000 (10,00,000)
Less: Utilisation of Securities Premium Account	<u>(16,00,000)</u>
Balance used from General Reserve Account	<u>62,00,000</u>
* Used under Section 68 for buy back	32,00,000
Used under Section 69 for transfer to CRR (W.N 2)	<u>30,00,000</u>
	<u>62,00,000</u>

(1.5 Marks)**2. Amount to be transferred to Capital Redemption Reserve account**

Nominal value of shares bought back (4,00,000 shares x Rs.10)	Rs.
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x Rs.10)	40,00,000 (10,00,000)
Amount transferred to Capital Redemption Reserve Account	<u>30,00,000</u>

Note: It is assumed that the buy-back of 4,00,000 equity shares is within the prescribed 25% limit of total equity shares.

(1.5 Marks)

Answer-7 (a) :

(i) Liquidator's Statement of Account

	Rs.		Rs.	Rs.
To Assets Realised	10,00,000	By Liquidator's remuneration		
To Receipts of call money on 14,500 equity shares @ 2 per share	29,000	2.5% on 11,60,000*	29,000	
		2% on 25,000	500	
		2% on 6,56,373 (W.N.3)	<u>13,127</u>	42,627
		Liquidation Expenses		5,000
		By Debentureholders having a floating charge on all assets		3,00,000
		By Preferential creditors		25,000
		By Unsecured Creditors		6,56,373
	10,29,000			10,29,000

(6 Mark)

(ii) Percentage of amount paid to unsecured creditors to total unsecured creditors

$$= \frac{6,56,373}{9,15,000} \times 100 = 71.73\%$$

(1 Mark)

Working Notes:

- Unsecured portion in partly secured creditors = Rs. 1,75,000 - Rs. 1,60,000 = Rs. 15,000
- Total unsecured creditors = 9,00,000 + 15,000 (W.N.1) = Rs. 9,15,000
- Liquidator's remuneration on payment to unsecured creditors

Cash available for unsecured creditors after all payments including payment to preferential creditors & liquidator's remuneration on it = Rs. 6,69,500
Liquidator's remuneration on unsecured creditors = Rs. 6,69,500 x 2/102 = Rs. 13,127 or on Rs. 6,56,373 x 2/100 = Rs. 13,127

(1 Mark)

Answer-7 (b) :

Calculation of correct Departmental Profits

	Department P (₹)	Department S (₹)	Department Q (₹)
Profit after charging Manager's Commission	90,000	60,000	45,000
Add: Manager's Commission (1/9)	10,000	6,667	5,000
	1,00,000	66,667	50,000
Less: Unrealised profit on Stock (WN)	(5,426)	(21,000)	(2,727)
Profit Before Manager's Commission	94,574	45,667	47,273
Less: Manager's Commission 10%	(9,457)	(4,567)	(4,727)
Correct Profit after Manager's Commission	85,117	41,100	42,546

(5 Marks)

Working Notes:

	<i>Department P</i> (₹)	<i>Department S</i> (₹)	<i>Department Q</i> (₹)	<i>Total</i> (₹)
Unrealized Profit of: Department P	-	$25/125 \times 18,000$ =3,600	$15/115 \times 14,000$ =1,826	5,426
Department S	$20/100 \times 48,000$ =9,600	-	$30/100 \times 38,000$ =11,400	21,000
Department Q	$20/120 \times 12,000$ =2,000	$10/110 \times 8,000$ =727		2,727

(3 Marks)