Paper 5 - Financial Accounting

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Answer Question No. 1 which is compulsory and any five from the rest.

Working Notes should form part of the answer. Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates.

1. (a) Answer the following questions (give workings) **[2 x 5=10]**

(i) Surat Rajya Setu Nigam Ltd. was awarded a contrsct of construction of a bridge for ₹ 200 Crores on 1.6.2007. Total contract cost estimated was ₹160 Crores. The position of the contract cost on 31/03/2010 and 31/03/2011 was under:

	As on 31/03/2010	As on 31/03/2011
Contract Price	200	200
Contract Cost incurred up to date	50	180 (100 % complete)
Estimate contract cost of completion	120	NIL

While closing books of account on 31/03/2011, the chief accountant treated excess cost of ₹ 20 Crores incurred as against estimated of ₹ (50+120)=170 Crores as on 31/03/2010 as mistakes in estimation of cost, hence categorized ₹20 Crores (190-170) as prior period expenses. Comment.

Answer:

Cost originally estimated by Surat Rajya Setu Nigam Ltd.	₹170
Excess Cost incurred	₹20
Treatment given by the company	Prior period item

As clearly provided in AS-5, a change in estimate is neither a prior period item nor an extraordinary item. Hence, the treatment given by the company is incorrect.

(ii) Mr. Vikas sold 1,500, 10% debentures (face value ₹ 100 each) of Shiva Limited at ₹ 125 cum-interest on 01.12.2013. The interest is payable on 31st March and 30th September every year. Find out the actual amount received by Vikas (excluding interest) on account of sale of investment.

Answer:

Total amount received from sale of debentures (cum-Interest) = 1,500 x 125 = ₹ 1,87,500
Less: Interest from 01.10.2013 to 30.11.2013 (1,500 x 100 x 10% x 2/12) = ₹ 2,500 Actual amount received (excluding interest) on A/c of sale of Investments = ₹ 1,85,000.

(iii) On 30.4.2014 MNC Ltd.obtained a loan from the bank for ₹100 lakhs to be utilized as under:

- **Construction of a factory shed ₹4 crores.**
- **Purchase of Machinery ₹ 3 crores.**
- **Working Capital ₹ 2 crore.**
- **Advance for Purchase of truck ₹ 1 crore.**

In March 2014, construction of shed was completed and machinery installed. Delivery of truck was not received. Total interest charged by the bank for the year ended 31.3.14 was ₹180 lakhs. Show the treatment of interest as per AS-16.

Answer:

As per AS-16, borrowing cost(interest) should be capitalized if borrowing cost is directly attributable to the acquisition, construction or production of qualifying asset. ₹10 crores borrowed from Bank was utilized for four different purposes, only construction of factory shed is a qualifying asset as per AS-16, while the other three payments are not for the qualifying asset. Therefore, borrowing cost attributable to the construction of a factory shed should only be capitalized which will be equal to ₹ 180 lakhs × 2/5= ₹72 lakhs.

The balance of ₹ 108 lakhs (₹180 lakhs – ₹72 lakhs) should be treated as an expense and debited to Profit and Loss Account.

(iv) ₹ 90,000 is the annual instalment to be paid for three years (given Present Value of an annuity of ₹ 1 p.a. @ 5% interest is ₹ 2.7232). Ascertain the Cash Price in case of Hire-Purchase .

Answer:

Amount of Instalment	Present Value
1	2.7232
₹90,000	$\frac{2.7232 \times ₹90,000}{1}$
Cash price is	=₹2,45,088

(v)From the following particulars, determine Closing Stock at Branch

	₹		₹
Opening stock at the Branch	**30,000**	**Expenses:**	
Goods sent to Branch	**90,000**	**Salaries**	**10,000**
Sales(Cash)	**1,20,000**	**Other Expenses**	**4,000**

The branch sells at cost plus 20%. The branch manager is entitled to a commission of 5% on the profits of the branch before charging such commission.

Answer:

Calculation of closing Stock at Branch:

Opening stock at Branch	30,000
Add: goods sent to Branch	90,000
	1,20,000
Less: Cost of sales (₹1,20,000 × 100/120)	1,00,000
Closing Stock	20,000

(b) From the four alternative answers given against each of the following cases, indicate the correct answer

(i) The cost of a Fixed Assets of a business has to be written off over its —
(A) Natural Life
(B) Accounting Life
(C) Physical Life
(D) Estimated Economic Life

(ii) Short workings can be recouped out of —
(A) Minimum rent
(B) Excess of actual Royalty over minimum rent
(C) Excess of minimum rent over actual Royalty
(D) Profit and Loss Account

(iii) The following account has a credit balance —
(A) Plant and Equipment A/c
(B) Purchase Returns A/c
(C) Purchase A/c
(D) None of the above

(iv) The effect of timing difference is called as —
(A) Current Tax
(B) Deferred Tax
(C) Minimum Tax
(D) None of the above

(v) A non-performing asset is
(A) Money at call and short notices
(B) An asset that ceases to generate income
(C) Cash balance with Bank
(D) None of the above

Answer:

(i) — (D)
(ii) — (B)
(iii) — (B)
(iv) — (B)
(v) — (B)

(c) Fill up the blanks in the following sentences using appropriate word from the alternatives indicated: [1x5=5]

(i) Clear Profit is related to the accounts of __________________ Companies. (Banking / Electricity)

(ii) The excess of issue price of share over their face value is termed as ____________ (discount/securities premium).

(iii) In a hire purchase system of maintaining accounts, when there is default in making payments in appropriate time, the owner takes back the ______________ of the goods. (ownership, possession)

(iv) Stock Velocity = $\frac{\text{Cost of Goods Sold}}{\_\_\_\_\_\_\_\_}$ **(Cost of Sales/Average Stock).**

(v) One of the characteristics of Depreciation is that it is a ____________ against profit. (charge, appropriation).

Answer:

(i) Electricity
(ii) Securities Premium
(iii) Possession
(iv) Average Stock
(v) Charge

(d) Match the following : **[1×5=5]**

(i) AS - 7	**A. Borrowing costs**
(ii) AS - 10	**B. Consolidated Financial Statements**
(iii) AS - 16	**C. Construction Contracts**
(iv) AS - 12	**D. Accounting for Fixed Assets**
(v) AS - 21	**E. Accounting for Government Grants**
	F. No matching statements found

Answer:

(i) AS - 7	**C.** Construction Contracts
(ii) AS - 10	**D.** Accounting for Fixed Assets
(iii) AS - 16	**A.** Borrowing costs
(iv) AS - 12	**E.** Accounting for Government Grants
(v) AS - 21	**B.** Consolidated Financial Statements

2.

(a) The total of debit side of Trial balance of a larger boot and shoe repairing firm as on 31.12.2013 is ₹1,66,590 and that of the credit side is ₹42,470. After several checking and re-cheking the mistakes are discovered:

Items of Account	Correct Figure (as it would be)	Figures as it appear in the Trial Balance
Opening Stock	**₹15,900**	**₹15,600**
Repairing (shown as debit balance)	**₹61,780**	**₹61,780**
Rent & Taxes	**₹4,640**	**₹4,400**
Sundry Creditors	**₹6,270**	**₹5,900**
Sundry Debtors	**₹7,060**	**₹7,310**

Ascertain the correct total of the Trial Balance. [5]

Answer:

Particulars	**Debit (₹)**	**Credit (₹)**
Total as per Trial Balance	1,66,590	42,470
Opening stock understated((15,900-15,600)	+300	-
Reparing being credit balance, but shown as debit balance	-61,780	+61,780
Rent & Taxes understated (4,640-4,400)	-240	-
Sundry Creditors understated(6,270-5,900)	-	+370
Sundry Debtors overstated(7,310-7,060)	-250	-
Total	**1,04,620**	**1,04,620**

(b) List the significant differences between Book Keeping and Accountancy. [5]

Answer:

The Significant difference between Book-keeping and Accountancy are:

Points of difference	**Book Keeping**	**Accountancy**
Meaning	Book-keeping is considered as end.	Accountancy is considered as beginning.
Functions	The primary stage of accounting function is called Book-keeping.	The overall accounting functions are guided by accountancy.
Depends	Accountancy can complete its functions with the help of Book-keeping.	Accountancy depends on Book-keeping for its complete functions.
Data	The necessary data about financial performances and financial positions are taken from Book-keeping.	Accountancy can take its decisions, prepare reports and statements from the data taken from Book-keeping.
Recording of Transactions	Financial transactions are recorded on the basis of accounting principles, concepts and conventions.	Accountancy does not take any principles, concepts and conventions from Book-keeping.

(c) State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

(i) Expenses incurred in connection with obtaining a licence for starting the factory were ₹20,000.
(ii) ₹ 5,000 paid for removal of stock to a new site.
(iii) Rings and Pistons of an engine were changed at a cost of ₹10,000 to get full efficiency.
(iv) ₹ 4,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.
(v) A factory shed was constructed at a cost of ₹ 4,00,000. A sum of ₹ 20,000 had been incurred for the construction of the temporary huts for storing building materials. [5]

Answer:

(i) ₹20,000 incurred in connection with obtaining a license for starting the factory is a Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.

(ii) ₹5,000 incurred for removal of stock to a new site is treated as a Revenue Expenditure beca use it is not enhancing the value of the asset and it is also required for starting the business on the new site.

(iii) ₹10,000 incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

(iv) ₹ 4,000 incurred for defending the title to the firm's assets is a Revenue Expenditure.

(v) Cost of construction of factory shed of ₹ 4,00,000 is a Capital Expenditure, similarly cost of construction of small huts for storing building materials is also a Capital Expenditure.

3. (a) Akash Ltd. has 3 departments A ,B and C. The following information is provided:

Particulars	A ₹	B ₹	C ₹
Opening Stock	**6,000**	**8,000**	**6,000**
Consumption of direct materials	**16,000**	**24,000**	**-**
Wages	**10,000**	**20,000**	**-**
Closing Stock	**8,000**	**28,000**	**16,000**
Sales	**-**	**-**	**68,000**

Stock of each department is valued at cost to the department connected. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above departmental cost. Other expenses were: salaries ₹4,000, Printing and Stationary ₹ 2,000, rent ₹12,000, Interest paid ₹8,000, Depreciation ₹6,000,. Allocate expenses in the ratio of departmental gross profit. Opening figures of reserve for unrealized profits on departmental stock were: Department B ₹2,000; Department C ₹4,000. [10]

Answer:

Departmental Trading and Profit & Loss Account

Dr. for the year ended 31st March, 2013 **Cr.**

Particulars	A ₹	B ₹	C ₹	Total ₹	Particulars	A ₹	B ₹	C ₹	Total ₹
To, Opening Stock	6,000	8,000	6,000	20,000	By, Internal transfer	36,000	66,000	-	1,02,000
To, Direct Material	16,000	24,000	-	40,000	By, Sales	-	-	68,000	68,000
To, Wages	10,000	20,000	-	30,000	By, Closing Stock	8,000	28,000	16,000	52,000
To, Internal Transfer	-	36,000	66,000	1,02,000					
To, Gross Profit c/d	12,000	6,000	12,000	30,000					
	44,000	**94,000**	**84,000**	**2,22,000**		**44,000**	**94,000**	**84,000**	**2,22,000**
To, Salaries	1,600	800	1,600	4,000	By, Gross Profit b/d	12,000	6,000	12,000	30,000

To, Printing & Stationery	800	400	800	2,000	By, Net Loss c/d	800	400	800	2,000
To, Rent	4,800	2,400	4,800	12,000					
To, Depreciation	2,400	1,200	2,400	6,000					
To, Interest paid	3,200	1,600	3,200	8,000					
	12,800	6,400	12,800	36,000		12,800	6,400	12,800	32,000
To, Net Loss b/d (After adjusting the profit of Deptt. C)				2,000	By, Provision for unrealized profit on Opening Stock				6,000
To, Provision for Unrealised profit on Closing Stock				7,836	By, Balance transferred to Profit & Loss A/c				3,836
				9,836					**9,836**

Working Notes :

(i) FIFO method for stock issue has been assumed.

(ii) Calculation of unrealised profit on Closing Stock of Deptt. B	₹
Current cost incurred by Deptt. B (₹ 24,000 + ₹ 20,000 + ₹ 36,000)	80,000
Profit included in Above (₹ 36,000 × 50/150)	12,000
Profit included in Closing Stock of	₹ 28,000
(₹ 12,000 × ₹ 28,000/₹ 80,000)	4,200
(iii) Calculation of unrealised profit on Closing Stock of Deptt	₹
Current Cost incurred by Deptt. C	66,000
Profit of Dept. B included in above (₹66,000 × 10/110)	6,000
Cost element of Dept. B included in current cost (₹ 66,000 –6,000)	60,000
Profit of Dept. A included in above cost (₹ 12,000 × ₹ 60,000/₹ 80,000)	9,000
Total Profit included in current cost of Dept. C (₹ 6,000 + ₹ 9,000)	15,000
Unrealised profit included in closing stock of ₹ 16,000 (₹ 15,000 × ₹ 16,000/₹ 66,000)	3.636
(iv) Total unrealised profit (₹ 4,200 + ₹ 3,636)	7,836

(b) How will you disclose the following Ledger balances in the Final accounts of Vinayak Bank?

Particulars	₹ in Lakhs
Current Accounts	**1,400**
Saving Accounts	**1,000**
Fixed Deposits	**1,400**
Cash Credits	**1,200**
Term Loans	**1,000**
Bills Discounted & Purchased	**1,600**

Additional information:

(i) Included in the Current Accounts Ledger are accounts overdrawn to the extent of ₹ 500 Lakhs.

(ii) One of the Cash Credit Account of ₹ 20 Lakhs (including interest ₹ 2 Lakhs) is doubtful.

(iii) 60% of Term Loans are secured by Government Guarantees, 20% of Cash Credits are unsecured, other portion is secured by Tangible Assets. [5]

Answer:

Schedules to the Balance Sheet (figures at end of current financial year)

Schedule 3 - Deposits	**₹ Lakhs**
Current Account (1,400 - 500)	900
Saving Bank Deposits	1,000
Fixed Deposits	1,400
Total	**3,300**

Schedule 9 - Advances	**₹ Lakhs**
(A) (i) Cash Credits, Overdrafts (1,200 + 500)	1,700
(ii) Term Loans	1,000
(iii) Bills Discounted and Purchased	1,600
Total	**4,300**
(B) (i) Secured by Tangible Assets (balancing figure)	3,360
(ii)Secured by Bank / Government Guarantees (1,000 x 60%)	600
(iii) Unsecured (1,700 x 20%)	340
Total	**4,300**

Note: Interest on Doubtful Cash Credit will be deducted from Income under Schedule 13, and Provision for Bad Debts shall be created on Doubtful Cash Credit of ₹ 20 Lakhs.

4. **Sachin and Tuhin were carrying on business as equal partners. Their Balance Sheet as on 31st March 2013 stood as follows:**

Capital and Liabilities		**₹**	**Properties and Assets**	**₹**
Capital Account:			**Stock**	**2,70,000**
- Sachin	**6,40,000**		**Debtors**	**3,65,000**
- Tuhin	**6,60,000**	**13,00,000**	**Furniture**	**75,000**
Creditors		**3,27,500**	**Joint Life Policy**	**47,500**
Bank Overdraft		**1,50,000**	**Plant**	**1,72,500**
Bills Payable		**62,500**	**Building**	**9,10,000**
Total		**18,40,000**	**Total**	**18,40,000**

The operations of the business was carried on till 30th September 2013. Sachin and Tuhin both withdrew in equal amounts, half the amount of profits made during the current period of 6 months after 10% p.a. had been written off on Building and Plant and 5% p.a. written off on Furniture. During the current period of 6 months, Creditors were reduced by ₹50,000, Bills Payables by ₹11,500 and Bank Overdraft by ₹75,000. The Joint Life Policy was surrendered for ₹47,500 on 30th September 2013. Stock was valued at ₹3,17,000 and Debtors at ₹ 3,25,000. The other items remained the same as they were on 31st March 2013.
On 30th September 2013, the Firm sold its business to Swastik Ltd. Goodwill was estimated at ₹ 5,40,000 and the remaining Assets were valued on the basis of the Balance Sheet as on 30th September 2013. Swastik Ltd. paid the Purchase Consideration in Equity Shares of ₹ 10 each. You are required to prepare a Realisation Account and Capital Accounts of the Partners. [15]

Answer:

Realisation Account

Dr. **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Sundry Assets A/c (transfer)		By Creditors A/c (transfer)	2,77,500
- Stock	3,17,000	By Bills Payable A/c (transfer)	51,000
- Debtors	3,25,000	By Bank Overdraft A/c	75,000
- Plant	1,63,875	(transfer)	18,80,000
- Building	8,64,500	By Shares in ST Ltd (WN C)	
- Furniture	73,125		
To Profit: trfd to Capital (equal)	5,40,000		
- Sachin 2,70,000			
- Tuhin 2,70,000			
Total	**22,83,500**	**Total**	**22,83,500**

Partners' Capital Account

Dr. **Cr.**

Date	**Particulars**	**Sachin**	**Tuhin**	**Date**	**Particulars**	**Sachin**	**Tuhin**
01.04.13	To Cash Drawings	20,000	20,000	01.04.13	By balance b/d	6,40,000	6,60,000
30.09.13	(WNB)	9,30,000	9,50,000	30.09.13	By Profit (WN B)	40,000	40,000
	To Shares in Swastik Ltd.			30.09.13	By Realsn A/c (Pft)	2,70,000	2,70,000
	Total	**9,50,000**	**9,70,000**		**Total**	**9,50,000**	**9,70,000**

Working Notes:

A. Balance Sheet as on 30th September 2013 (To find out Total Capital of the Firm)

Capital and Liabilities	**₹**	**Properties and Assets**		**₹**
Sundry Creditors (3,27,500 -	2,77,500	Building	9,10,000	
50,000)	51,000	Less: Dep. at 10% p.a. for 6 months	(45,500)	8,64,500
Bills Payable (62,500 - 11,500)	75,000	Plant	1,72,500	
Bank Overdraft (1,50,000 - 75,000)	13,40,000	Less: Dep. at 10% p.a. for 6 months	(8,625)	1,63,875
Total Capital (balancing figure)		Furniture	75,000	
		Less: Dep. at 5% p.a. for 6 months	(1,875)	73,125
		Current Assets: Stock		3,17,000
		Debtors		3,25,000
Total	**17,43,500**	**Total**		**17,43,500**

B. Profit earned during six months to 30th September 2013

Particulars		**₹**
Total Capital (of Sachin and Tuhin) on 30th September 2012 (WN A)		13,40,000
Capital on 1st April 2012		
- Sachin	6,40,000	
- Tuhin	6,60,000	13,00,000
Net Increase (after Drawings)		**40,000**

Since Drawings are half of the profits, Actual Profit earned = ₹ 40,000 x 2 = ₹ 80,000 (shared equally by Partners Sachin and Tuhin).

C. Purchase Consideration

	Particulars	**₹**
	Total Assets (WN A)	17,43,500
Add:	Goodwill	5,80,000

		22,83,500
Less:	External Liabilities (2,77,500 + 51,000 + 75,000)	(4,03,500)
	Purchase Consideration	**18,80,000**

Note: The above solution is given on the assumption that reduction in Bank Overdraft (as given in question) is after the surrender of Joint Life Policy.

5. (a) List the items to be included and the items to be excluded to arrive at the Contract Cost as per AS – 7. [8]

Answer:

Contract costs includes of the following:

Specific costs to contract –
These are as under:
- Site labour cost including supervision;
- Cost of material used in construction;
- Depreciation of plant and equipments used on the contract;
- Cost of moving plant, equipments and materials from contract site;
- Cost of hiring plant;
- Cost of design and technical assistance;
- Estimated cost of rectification and guarantee work including expected warranty cost;
- Claim from third parties;
- Pre-contract cost. If it is probable that contact will be obtained.

Cost attributable to contract –
These costs are:
- Insurance.
- Cost of design and technical assistance that is not directly related to a specific contract.
- Construction overheads.

Cost specifically chargeable to customers under the terms of contract –
These costs are:
- Some general administration cost/for which reimbursement is specified.
- Development cost.
- Reimbursement of any other cost.

These costs should be reduced by **incidental income if any not** included in contract revenue, for example, sale of surplus/scrap material, disposal of plant and equipment at the end of contract.
Contract costs excludes the following:

Following costs are excluded from contract cost unless specifically chargeable under terms of contract:
- General administration cost
- Selling cost
- Research and development
- Depreciation cost of idle plant and equipment
- Cost incurred in securing the contract. Pre-contract cost - if it is not probable that contract will be obtained.

(b) The following details are given by the Bhima Ltd. for a year:

Inventory ₹ 5,20,000 Working Capital ₹ 6,76,000 Cash Sales ₹ 2,50,000 Inventory Turnover 5 times Debtors Turnover 6 times Current ratio 2 : 3 : 1 Gross Profit ratio 20% of sales You are required to calculate the amount of (i) Gross Profit, (ii) Total sales, (iii) Sundry Debtors, (iv) Current Assets. **[7]**

Answer:

Inventory Turnover = 5

$$\text{Or, } 5 = \frac{\text{Cost of Goods Sold (COGS)}}{\text{Inventory}}$$

$$\text{Or, } 5 = \frac{\text{(COGS)}}{₹5{,}20{,}000}$$

Or, COGS = ₹26,00,000.

(i) Grross Profit 20% of Sales
$\therefore$25% of Cost of Goods Sold
i.e. 25% × ₹26,00,000 = ₹6,50,000.

(ii) Total Sales = Cost of Goods Sold + Gross Profit
=₹26,00,000 + ₹6,50,000
=₹32,50,000.

(iii) Sundry Debtors = Credit Sales / Debtors Turnover
=(Total Sales – Cash Sales)/Debtors Turnover
=₹ (32,50,000 – 2,50,000)/ 6 times = ₹5,00,000.

(iv) Current Assets:
Current Ratio = 2.3:1

i.e. Current Ratio = Current Assets / Current Liabilities
Or, 2.3 = Current Assets / Current Liabilities
Current Assets = 2.3 × Current Liabilities

Working Capital = Current Assets – Current Liabilities

6,76,000 = 2.3 × C.L. – C.L
Or, 1.3 Current Liabilities = 6,76,000
$\therefore$ Current Liabilities = ₹5,20,000
$\therefore$ Current Assets = ₹5,20,000 × 2.3 = ₹11,96,000.

6. (a) Briefly explain the discloser requirement of Accounting Standard-6. **[2]**

Answer:

Disclosure requirements as per AS – 6 :

Following information should be disclosed in the financial statements:

- Historical cost or revalued amount of each class od depreciable assets;
- Total depreciation for the period for each class of assets; and
- Accumulated depreciation
- Depreciation methods used; and depreciation rates or useful lives, if different from rates specified in the statute.

(b) Explain the accounting treatment of donation received for specific purpose in the case of Charitable society. [5]

Answer:

Donations may have been raised either for meeting some revenue or capital expenditure; those intended for meeting revenue expenditures are credited directly to the Income and Expenditure Account but others, if the donors have declared their specific intention, are credited to special fund account and in the absence thereof, to the Capital Fund Account.

If any investments are purchased out of a special fund or an asset is acquired there from, these are disclosed separately. Any income received from such investments or any donations collected for a special purpose are credited to an account indicating the purpose and correspondingly the expenditure incurred in carrying out the purpose of the fund is debited to this account. On no account any such expense is charged to the Income and Expenditure Account. The term "Fund" is strictly applicable to the amounts collected for a special purpose when these are invested, e.g. Scholarship Fund, Prize Fund etc. In other cases, when the amounts collected are not invested in securities or assets distinguishable from those belonging to the institution, the word "Account" is more appropriate e.g. Building Account, Tournament Account etc.

(c) OMR Limited recently made a public issue in respect of which the following information is available:

(i) No. of partly convertible debentures issued 4,00,000; face value and issue price ₹100 per debenture.

(ii) Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.

(iii) Date of closure of subscription lists 1.5.2013, date of allotment 1.6.2013, rate of interest on debenture 15% payable from the date of allotment, value of equity share for the purpose of conversion ₹ 60 (Face Value ₹ 10).

(iv) Underwriting Commission 2.5 %.

(v) No. of debentures applied for 3,00,000.

(vi) Interest payable on debentures half-yearly on 30th September and 31st March.

(vii) Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2014 (including cash and bank entries). [8]

Answer:

In the books of OMR Ltd.

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
1.5.13	Bank A/c Dr. To Debenture Application A/c (Application money received on 300,000 debentures @ ₹ 100 each)	300,00,000	 300,00,000

1.6.13	Debenture Application A/c Dr. Underwriters A/c Dr. To 15% Debentures A/c (Allotment of 3,00,000 debentures to applicants and 1,00,000 debentures to underwriters)		300,00,000 100,00,000	400,00,000
	Underwriting Commission A/c Dr. To Underwriters A/c (Commission payable to underwriters @ 2.5 % on ₹4,00,00,000)		10,00,000	10,00,000
	Bank A/c Dr. To Underwriters A/c (Amount received from underwriters in settlement of account)		99,00,000	99,00,000
30.9.13	Debenture Interest A/c Dr. To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 400,00,000)		20,00,000	20,00,000
30.10.13	15% Debentures A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)		240,00,000	40,00,000 200,00,000
31.3.14	Debenture Interest A/c Dr. To Bank A/c (Interest paid on debentures for the half year)		15,00,000	15,00,000

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 2014

On ₹ 160,00,000 for 6 months @ 15%	= ₹ 12,00,000
On ₹ 240,00,000 for 1 months @ 15%	= ₹ 3,00,000
	₹ 15,00,000

7. (a) The following information has been obtained from the books of a lesee relating to the years 2010-11 to 2013-14 :

Payments to Landlord (after tax deducted @ 20% at Source) :

	2010-11	**₹ 12,000**
	2011-12	**₹ 12,000**
	2012-13	**₹ 12,000**
	2013-14	**₹ 19,200**
Short-working recovered :	**2011-12**	**₹ 2,500**
	2012-13	**₹ 1,000**
Short-working written-off :	**2012-13**	**₹ 500**

Balance of Short-working Account forward on April 1, 2010 ₹ 800 (which are in 2010-11). According to the terms of agreement short-working is recoverable within the next two years following the year in which short-working arises.

You are required to show the necessary accounts in the books of the lessee for the four years ended 31st March 2014. [10]

Answer:

Before preparing the ledger accounts we are to find out some missing information :

A. The recoupment which was made is 2011-12 for ₹ 2,500 is inclusive of ₹ 800 of 2009-10 and the balance ₹ 1,700 for 2010-11.
   Again, the short-working which was recovered and written-off ₹ 1,000 and ₹ 500 (i.e., ₹ 1,500), respectively, in 2012-13 are also for the year 2010-11. So, the total short-working for 2012-13 amounted to ₹ 3,200 (i.e., ₹ 1,700 + ₹ 1,500).
B. Rate of taxes @ 20% on gross i.e., 25% (i.e.) on net amount paid.
C. Actual Payment = Annual Royalty + Short-working – Recoupment.

Thus, actual royalty is calculated as under :

	2010-11 ₹	2011-12 ₹	2012-13 ₹	2013-14 ₹
Payment to landlord (after tax)	12,000	12,000	12,000	19,200
Add Back: Tax Deducted at Source @ ¼ th	3,000	3,000	3,000	4,800
Payment to landlord (before Tax)	15,000	15,000	15,000	24,000
Less : Short-working	3,200	—	—	—
Add : Recoupment	—	2,500	1,000	—
	11,800	17,500	16,000	24,000

In the Books of Lessee

Royalty Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2011 March, 31	To Landlord A/c	11,800	2011 March, 31	By P/L A/c	11,800
2012 March, 31	To Landlord A/c	17,500	2012 March, 31	By P/L A/c	17,500
2013 March, 31	To Landlord A/c	16,000	2013 March, 31	By P/L A/c	16,000
2014 March, 31	To Landlord A/c	24,000	2014 March, 31	By P/L A/c	24,000

Landlord Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2011 March, 31	To Bank A/c To Income Tax Payable A/c	12,000 3,000	2011 March, 31	By Royalty A/c By Short workings A/c	11,800 3,200
		15,000			15,000
2012 March, 31	To Bank A/c To Income Tax Payable A/c To Short workings A/c	12,000 3,000	2012 March, 31	By Royalty A/c	17,500

	(Recoupment)	2,500			
		17,500			17,500
2013 March, 31	To Bank A/c To Income Tax Payable A/c To Short workings A/c(Recoupment)	12,000 3,000 1,000	2013 March, 31	By Royalty A/c	16,000
		16,000			16,000
2014 March, 31	To Bank A/c To Income Tax Payable A/c	19,200 4,800	2014 March, 31	By Royalty A/c	24,000
		24,000			24,000

Short-working Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2011 March, 31	To Balance b/f To Landlord A/c	800 3,200	2011 March, 31	By Balance c/d	4,000
		4,000			4,000
2012 March, 31	To Balance b/d	4,000	2012 March, 31	By Landlord A/c By Balance c/d	2,500 1,500
		4,000			4,000
2013 March, 31	To Balance b/d	1,500	2013 March, 31	By Landlord A/c By P/L c/d	1,000 500
		1,500			1,500

(b) From the following particulars of Mitali Ltd. you are required to calculate the Managerial Remuneration in the following situations:

(i) There is only one Whole Time Director.

(ii) There are two Whole Time Directors.

(iii) There are two Whole Time Directors, a part time Director and a Manager.

Particulars	₹
Net Profit before Income Tax and Managerial Remuneration, but after Depreciation and Provision for Repairs	**8,70,410**
Depreciation provided in the Books	**3,10,000**
Provision for Repairs for Machinery during the year	**25,000**
Depreciation Allowable under Schedule XIV	**2,60,000**
Actual Expenditure incurred on Repairs during the year	**15,000**

[5]

Answer:

A. Computation of Net Profits u/s 349 of the Companies Act

Particulars	₹
Net Profit before Provision for Income-tax and Managerial Remuneration, but after Depreciation and Provision for Repairs	8,70,410
Add: Depreciation provided in the Books	3,10,000
	11,80,410
Less: Depreciation allowable under Schedule XIV	(2,60,000)

Net Profits under Section 349	9,20,410

Note: While computing the Net Profit u/s 349:

- All usual working charges will be allowed.
- Expenses on repairs, whether to movable / immovable property provided the repairs are not of capital nature will be allowed.
- Provision for Repairs of Machinery are usual working charges and hence allowed for computing Net Profit u/s 349.

B. Computation of Managerial Remuneration u/s 309

Situation	% of Remuneration	Managerial Remuneration
One Whole Time Director	5%	₹ 46,020.50
Two Whole Time Directors	10%	₹ 92,041.00
Two Whole Time Directors and Part Time Director and a Manager	11%	₹ 1,01,245.10

8. Write short notes on any three: **[3×5=15]**

(a) Classification of Branches for Branch accounting purpose;
(b) Classification of investments by a banking company;
(c) Commission on Re-insurance;
(d) Over/Under Subscription;
(e) Business Entity Concept.

Answer:

(a) Classification of Branches for Branch accounting purpose:

Branches are classified as two way : (i) Inland Branch, (ii) Foreign Branch

(i) Inland Branches :
- Dependent Branches: Branches in respect of which the whole of the accounting records are kept at head office.
- Independent Branches: As the name indicates such branches maintain independent accounting records.

(ii) Foreign Branches: Branches which are located in a foreign country other than in which the company is incorporated they maintain independent and complete record of business.

Methods of accounting are:

(i) Final Accounts method
- At wholesale price
- At Cost Price/At Invoice Price

(ii) Debtors method;
(iii) Stock and Debtors method; and

(iv) Cash Basis System.

(b) Classification of investments by a banking company:

The investment portfolio of a bank would normally consist of both approved securities (predominantly government securities) and other securities (shares, debentures, bonds etc.). Banks are required to classify their entire investment portfolio into three categories:

- Held-to-maturity: Securities acquired by banks with the intention to hold them up to maturity should be classified as 'held-to-maturity'
- Held-for-maturity: Securities acquired by banks with the intention to trade by taking advantage of short–term price interest rate movements should be classified as held-for trading/maturity.
- Available-for-sale: Securities which do not fall within the above two categories should be classified as available-for-sale'.

(c) Commission on Re-insurance:

When insurance company gets re-insurance business it has to pay commission to some other companies. This commission is called "Commission on Reinsurance accepted" and is shown as an expenses in the revenue account. When an insurance company passed on a part of business to some other companies then the company (which gives business) gets commission from the company to whom such business is given. This commission is called "Commission on reinsurance Ceded" and is an income to the company surrendering the business. It appears as an income in the Revenue account.

(d) Over/Under Subscription:

Where the total number of shares for which are received is less than the number of shares issued, it is a case of under subscription. If the actual applications received are more than the shares offered to the public it is case of over subscription.

In the case of under subscription as the applications received are less than those required for minimum subscription, the company cannot processed with the allotment. The entire application money has to be refunded. If the subscription for shares are more than what is offered to the public the Board of Directors may make allotment in full to required number of applicants and reject the other applications. Alternatively, they may allot shares proportionately to the applications received to all applicants which is known as pro-rata allotment. It is possible that they may resort to selective partial allotment by which the pro-rata allotment may be different for various ranges of share applications received.

(e) Business Entity Concept:

As per this concept, the business is treated as distinct and separate from the individuals who own or manage it. Application of this concept enables recording of transactions of the business entity with its owners or managers or other stakeholders. For example, if the owner pays his personal expenses from business cash, this transaction can be recorded in the books of business entity. This transaction will take the cash out of business and also reduce the obligation of the business towards the owner. The creditors of the retail outlet can sue the individual and collect his claim from personal resources of the individual. However, in accounting, the records are kept as distinct for the retail outlet and the individual respectively.

The entity concept requires that all the transactions are to be viewed, interpreted and recorded from 'business entity' point of view. An accountant steps into the shoes of the business entity and decides to account for the transactions. The owner's capital is the obligation of business and it has to be paid back to the owner in the event of business closure. Also, the profit earned by the business will belong to the owner and hence is treated as owner's equity.