TOPPER'S INSTITUE

IPC – Advance Accounts - RTP

Q1. is compulsory, Attempt any **Five** questions from the remaining **Six** questions

Working Notes should form part of the Answers

Q.1 Answer the following: **[4 × 5 = 20 Marks]**

(a) "One of the characteristics of financial statements is neutrality"- Do you agree with this statement?

(b) Mohan bought a forward contract for three months of US $ 2,00,000 on 1st December 2015 at 1 US $;: ₹ 44.10 when the exchange rate was 1 US $ = ₹ 43.90. On 31-12-2015, when he closed his books, exchange rate was 1 US $ = ₹ 44.20. On 31st January, 2016 he decided to sell the contract at ₹ 44.30 per Dollar. Show how the profits from the contract will be recognized in the books of Mohan.

(c) State with reasons, how the following events would be dealt with in the financial statements of Omega Ltd. for the year ended 31st March, 2016:

(i) An agreement to sell a land for ₹ 30 lakh to another company was entered into on 1st March. 2016. The value of land is shown at ₹ 20 lakh in the Balance Sheet as on 31st March, 2015. However, the Sale Deed was registered on 15th April, 2016.

(ii) The negotiation with another company for acquisition of its business was started on 2nd February, 2016. Omega Ltd. invested ₹ 40 lakh on 12th April, 2016.

(d) A Company had issued 20,000, 13% Convertible debentures of ₹ 100 each on 1st April, 2011. The debentures are due for redemption on 1st July, 2013. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.

Q.2 A, B and C give you the following Balance Sheet as on 31st March, 2016.

Liabilities		₹	Assets		₹
A's Loan		15,000	Plant and Machinery at cost		30,000
Capital Accounts:			Fixtures and Fittings		2,000
A	30,000		Stock		10,400
B	10,000		Debtors	18,400	
C	2,000	42,000	Less: Provision	(400)	18,000
Sundry Creditors		17,800	Joint Life Policy		15,000
Loan on Hypothecation of			Patents and Trademarks		10,000
Stock		6,200	Cash at Bank		8,000
Joint Life Policy Reserve		12,400			
		93,400			93,400

The partners shared profits and losses in the ratio of A 4/9, B 2/9 and C 1/3. Firm was dissolved on 31st March, 2016 and you are given the following information:

(a) C had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy. The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for. C's loan and ₹ 300 as interest thereon.

(b) One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of ₹ 4,500. The balance to that creditor was paid in cash.

(c) The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.

(d) The remaining assets realized the following amount:

	₹
Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500
Patents 50% of their book value	

(e) The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.

(f) The expenses of realization amounted to ₹ 2,300.

Prepare the Realisation Account Bank Account and Partners Capital Accounts in columnar form.

[16 Marks]

Q.3 Alpha Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2016:

	₹ in '000	**₹ in '000**
Equity & liabilities		
Share Capital:		
Authorized Capital:		5,000
Issued and Subscribed Capital:		
3,00,000 Equity shares of ₹ 10 each fully paid up	3,000	
20,000 9% Preference Shares of 100 each	2,000	
(issued two months back for the purpose of buy back)		5,000
Reserve and Surplus:		
Capital reserve	10	
Revenue reserve	4,000	
Securities premium	500	
Profit and Loss account	1,800	6,310
Non-current liabilities -10% Debentures		400
Current liabilities and provisions		40
		11,750
Assets		
Fixed Assets: Cost	3,000	2,750
Less: Provision for depreciation	250	5000
Non-current investments at cost		
Current assets, loans and advances (including cash and bank balances)		4,000
		11,750

(1) The company passed a resolution to buy back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 30 lakhs for ₹ 25lakhs.

(2) The company redeemed the preference shares at a premium of 10% on 1st April, 2016.

(3) Included in its investments were Investments in own debentures' costing ₹ 3 lakhs (face value ₹ 3.30 lakhs). These debentures were cancelled on 1st April, 2016.

You are required to pass necessary Journal entries and prepare the Balance Sheet on 01.04.2016.

[16 Marks]

Q.4 Following is the Balance Sheet of Aditya Ltd. as at 31st March, 2016:

Liabilities	**₹**	**Assets**	**₹**
15,000, 10% Preference shares of ₹ 100each	15,00,000	Goodwill	13,50,000
35,000 Equity shares of ₹100 each	35,00,000	Land & Buildings	15,00,000
Securities Premium account	1,00,000	Plant & Machinery	10,00,000
7% Debentures of Rs. 100 each	5,00,000	Inventory	6,00,000
Trade payables	12,50,000	Trade receivables	15,00,000
Loan from Director	1,50,000	Cash at bank	1,00,000
		Profit & loss A/c	19,50,000
	70,00,000		70,00,000

No dividend on Preference shares has been paid for the last 5 years.
The following scheme of reorganization was duly approved by the Tribunal:

(i) Each Equity share to be reduced to ₹ 25.

(ii) Each existing Preference share to be reduced to ₹ 75 and then exchanged for 1 new 13% Preference share of ₹ 50 each and 1 Equity share of ₹ 25 each.

(iii) Preference shareholders have forgone their right for dividend for four years. One year's dividend. at the old rate is however, payable to them in fully paid equity Shares of ₹ 25.

(iv) The Debenture holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of ₹ 50 each issued at par. One half (in value) of the debenture holders accepted Preference shares for their claims. The rest were paid cash.

(v) Contingent liability of ₹ 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the company.

(vi) Goodwill does not have any value in the present. Decrease the value of Plant and Machinery; Inventory and Trade receivables by ₹ 4,00,000, ₹ 1,00,000 and ₹ 1,50,000 respectively. Increase the value of Land and Buildings to ₹ 18,00,000.

(vii) 40,000 new Equity shares of ₹ 25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%.
Shares were fully taken up.

(viii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to ₹ 15,000.

Pass necessary Journal Entries to record the above transactions. **[16 Marks]**

Q.5(a) Krishna Ltd. has two departments X and Y. From the following particulars prepare departmental trading accounts and general profits and loss account for the year ending 31st March, 2016:

	Department X	**Department Y**
	₹	**₹**
Opening stock (at cost)	80,000	48,000
Purchases	3,68,000	2,72,000
Carriage inward	8,000	8,000
Wages	48,000	32,000
Sales	5,60,000	4,48,000
Purchased goods transferred		
By department Y to X	40,000	-
By department X to Y	-	32,000
Finished goods transferred		
By department Y to X	1,40,000	-

By department X to Y	-	1,60,000
Return of finished goods		
By department Y to X	40,000	-
By department X to Y	-	28,000
Closing stock		
Purchased goods	18,000	24,000
Finished goods	96,000	56,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 25% of the closing finished stock with each department represents finished goods received from the other department.

(b) Beta, having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.
Following details are furnished for the year ended 31st March, 2016:

	Head Office (₹)	**Branch (₹)**
Opening stock (as on 1.4.2015)	2,25,000	-
Purchases	25,50,000	-
Goods sent to branch (Cost to H.O. plus 80%)	9,54,000	-
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2016. **[8 + 8 = 16 Marks]**

Q.6. (a) A Commercial Bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted assets ratio.

Particulars	**Head Office (₹)**
Equity share capital	500.00
Statutory reserve	270.00
Capital reserve (of which ₹ 16 crores were due to revaluation of assets and the balance due to sale of capital asset)	78.00
Assets:	
Cash balance with RBI	10.00
Balance with other banks	18.00
Other investments	36.00
Loans and advances:	
(i) Guaranteed by the Government	16.50
(ii) Others	5,675.00
Premises, furniture and fixtures	78.00
Off-Balance Sheet items:	
(i) Guarantee and other obligations	800.00
(ii) Acceptances, endorsements and letter of credit	4,800.00

(b) From the following information furnished to you by Vridhi Insurance Co. Ltd., you are required to pass Journal entries relating to unexpired risk reserve and show in columnar form "Unexpired Risks Reserve Account" for 2016.

(i) On 31.12.2015, it had reserve for unexpired risks amounting to ₹ 40 crores. It comprised of ₹ 15 crores in respect of marine insurance business, 20 crores in respect of fire insurance business and ₹ 5 crores in respect of miscellaneous insurance business.

(ii) Vridhi Insurance Co. Ltd. creates reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous-income policies.

(iii) During 2016, the following business was conducted:

		(₹ in crores)	
	Marine	**Fire**	**Miscellaneous**
Premium collected from:			
(a) Insured in respect of policies issued	18.00	43.00	12.00
(b) Other insurance companies in respect of risks undertaken	7.00	5.00	4.00
Premium paid/payable to other insurance companies on business ceded	6.70	4.30	7.00

[8+8 = 16 Marks]

Q.7 Answer any **four** of the following:

(a) Why goods are marked on invoice price by the head office while sending goods to the branch?

(b) When capitalisation of borrowing cost should cease as per Accounting Standard 16?

(c) Annual lease rent = ₹ 40,000 at the end of each year

Lease period = 5 years

Guaranteed residual value = ₹ 14,000

Fair value at the inception (beginning) of lease = ₹ 1,50,000

Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7, 0.622, 0.552 at the end of first, second, third, fourth and fifth year respectively.

Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

(d) From the following information relating to y Ltd. Calculate Earnings Per Share (EPS):

	₹ in crores
Profit before V.R.S. payments but after depreciation	75.00
Depreciation	10.00
VRS payments	32.10
Provision for taxation	10.00
Fringe benefit tax	5.00
Paid up share capl1al (shares of ₹ 10 each fully paid)	93.00

(e) What are the costs that are to be included in Research and Development costs as per AS 26.

[4 × 4 =16 Marks]

ADV. ACCOUNTS - RTP SOLUTIONS

Ans. 1

(a) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results. For example if the assets of a company primarily consist of debtors and insurance claims and the financial statements do not specify that the insurance claims have been lying unrealized for a number of years or that a few key debtors have not given balance confirmation certificates, an erroneous conclusion may be drawn on the liquidity of the company. Financial statements are said to depict the true and fair view of the business of the organization by virtue of neutrality.

(b) As per para 39 of AS·11 'Changes in Foreign Exchange Rates', in recording a forward exchange contract intended for trading or speculation purpose, the premium or discount on the contract is ignored and at each balance sheet date, the value of contract is marked to its current market value and the gain or loss on the contract is recognised. Since the forward contract was for speculation purposes the premium on forward contract i.e. the difference between the spot rate and the forward contract rate will not be recorded in the books. Only when the forward contract is sold the difference between the forward contract rate and sale rate win be recorded in the Profit & Loss Account.

	₹
Sale rate	44.30
Less: Contract rate	(44.10)
Profit on sale of contract per US$	00.20

Contract Amount US $ 2,00,000
Total profit (2,00,000 × 0.20) ₹ 40,000

(c) (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 1st March, 2016 i.e. before the balance sheet date. Registration of the sale deed on 15th April, 2016 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 Omega Ltd. for the year ended 31st March, 2016.

(ii) AS 4 (Revised) defines "Events occurring after the balance sheet date" as those significant events, both favorable and unfavorable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company. Accordingly, the acquisition of another company is an event occurring after the balance sheet date. However, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2016.

Applying provisions of the standard which clearly state that/disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2016 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

(d) Calculation of number of equity shares to be allotted

	₹
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17 ,500)	3,500

Redemption value of 3,500 debentures at a premium of 5%
[3.500 × (100+5)] ₹ 3,67,500

Equity shares of ₹10 each issued on conversion
[₹ 3,67,500/ ₹ 15] 24,500 shares

Ans. 2. **Realisation Account**

Particulars	₹	Particulars		₹
To Plant and Machinery	30,000	By Provision for doubtful debts		400
To Fixture and Fitting	2,000	By Loan on hypothecation of stock (W.N.3)		3,000
		By Creditor (W.N.2)		500
To Stock	10,400	By Joint Life Policy (W.N.4)		12,900
To Debtor	18,400	By Bank		
To Patent and Trademark (W.N.5)	5,500	Plant and Machinery	17,000	
To Bank	2,300	Fixtures and fittings	1,000	
		Stock	9,000	
		Debtors	16,500	
		Patents and Trademarks	2,000	45,500
		By Partner's Capital Account		
		A	2,800	
		B	1,400	
		C	2,100	6,300
	68,600			68,600

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	8,000	By C's Capital A/c drawings	5,300
To Joint Life Policy	15,500	By Loan on hypothecation of stock	3,200
To Realisation A/c	45,500	By Creditor	12,800
To C's Capital A/c	5,400	By Realisation A/c (expenses)	2,300
		By A's Loan A/c	15,000
		By A's Capital A/c	27,200
		By B's Capital A/c	8,600
	74,400		**74,400**

Partner's Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Bank			5,300	By Balance b/d	30,000	10,000	2,000
To Realisation A/c	2,800	1,400	2,100	By Bank A/c (Balance figure)			5,400
To Bank (Balance figure)	27,200	8,600					
	30,000	10,000	7,400		30,000	10,000	7,400

Working Notes:

1. A's Loan Account

Particulars	₹	Particulars	₹
To Bank A/c	15,000	By Balance b/d	15,000
	15,000		15,000

2. Sundry Creditors Account

Particulars	₹	Particulars	₹
To Patents and Trademarks A/c To Realisation A/c To Bank A/c	4,500 500 12,800	By Balance b/d	17,800
	17,800		17,800

3. Loan on Hypothecation of Stock Account

Particulars	₹	Particulars	₹
To Realisation A/c To Bank A/c	3,000 3,200	By Balance b/d	6,200
	6,200		6,200

4. Joint Life Policy Account

Particulars	₹	Particulars	₹
To Balance b/d To Realisations A/c	15,000 12,900	By Joint Life Policy Reserve A/c By Bank A/c (10,200+5,300)	12,400 15,500
	27,900		27,900

5. Patents and Trademarks Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Creditors A/c By Realisation A/c	4,500 1,500 4,000*
	10,000		10,000

Ans.3 Journal Entries in the books of Alpha Ltd.

	Particulars	Dr. ₹ In '000	Dr. ₹ In '000
1	Bank A/c Dr. Profit and Loss A/c Dr. To Investment A/c (Being investment sold for the purpose of buy-back of Equity Shares)	2,500 500	 3,000
2	Preference share capital A/c Dr. Premium on redemption of Preference Shares A/c Dr. To Preference shareholders A/c (Being redemption of preference share capital at premium of 10%)	2,000 200	 2,200
3	Preference Share Holders A/c Dr. To Bank A/c (Being payment made to preference shareholders)	2,200	 2,200
4	Equity Share Capital A/c Dr. Securities premium A/c (Premium payable on buy-back) Dr. To Equity Shares buy-back A/c (Being the amount due on buy-back of equity shares)	600 300	 900

5	Equity shares buy-back A/c Dr. To Bank A/c	900	 900
6	10% Debenture A/c Dr. To Own Debentures A/c To Capital Reserve A/c (Profit on cancellation) (Being own debentures cancelled at profit)	330	 300 30
7	Securities Premium A/c Dr. To Premium o redemption of preference shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	200	 200
8	Revenue Reserve A/c Dr. To Capital redemption reserve A/c (Refer Note) (Being creation of capital redemption reserve to the extent of nominal value of preference shares redeemed)	2,000	 2,000

Balance Sheet of the Alpha Ltd. As on 1st April, 2016

		Notes No.	₹ in 000
	Equity and Liabilities		
1	Shareholders funds		
	Share Capital	1	2,400
	Reserve and Surplus	2	5,340
2	Non-current liabilities		
	Long term borrowing	3	70
3	Current liabilities		40
	Total		7,850
	Assets		
1	Non-current assets		
	a. Fixed Assets		2,750
	b. Non-current investments	4	1,700
2	Current assets	5	3,400
	Total		7,850

Notes to Account

1.	Share Capital Authorized share capital: Issued, subscribed and fully paid up share capital: 2,40,000 Equity shares of ₹ 10 each, fully paid up (60,000 equity shares had been bought back and cancelled during the years)			 5,000 2,400
2.	Reserves and Surplus Capital Reserves Add: Profit on cancellation of debentures Securities Premium Less: Premium on redemption of preference shares Premium on buy-back of equity shares Revenue Reserve Less: Transfer of Capital Redemption Reserve Capital Redemption Reserve Surplus (Profit & Loss Account Less: Loss on sale of investment	 10 30 500 (200) (300) 4,000 (2,000) 1,800 (500)	 40 2,000 2,000 1,300	 5,340
3.	Long Term borrowing 10% Debentures (400-330)			 70
4.	Non-Current Investments Balance as on 31.03.2016		 5,000	

	Less: Investment sold Own Debentures Cancelled		(3,000) (300)	1,700
5	Current Assets Balance as on 31.03.2016 Add: Cash Received on sale of investment Less: Payment made to equity shareholders for buy back of shares Payment made to preference shareholders		4,000 2,500 (900) (2,200)	3,400

Note: In the given solution, it is assumed that buy-back of shares has been done out of the proceeds of issue of preference shares, therefore, no amount is transferred to capital redemption reserve for buy-back. However, if it is assumed that buy-back is from sale of investments and not from the proceeds of issue of preference shares, then, amount of revenue reserves transferred to capital redemption reserve will be ₹ 2,600 instead of ₹ 2,000.

Ans.4 **In the books of Aditya Ltd.**

Journal Entries

	Particulars	**Dr. Amount (₹)**	**Cr. Amount (₹)**
1.	Equity Share Capital (₹ 100) A/c Dr. To Equity Share Capital (₹ 25) A/c To Capital Reduction A/c (Being Equity shares of ₹ 100 each reduced to ₹ 25 each and balance transferred to Capital Reduction A/c)	35,00,000	 8,75,000 26,25,000
2.	10% Preference Share Capital (₹ 100) A/c Dr. To 10% Preference Share Capital(₹ 75) A/c To Capital Reduction A/c (Being Preference shares of ₹ 100 each reduced to Rs.75 each and balance transferred to Capital Reduction A/c Total Pref. shares = 15,000)	15,00,000	 11,25,000 3,75,000
3.	10% Preference Share capital (₹ 75) A/c Dr. To 13% Preference Share Capital (₹ 50) A/c To Equity Share Capital A/c (Being one new 13% Preference Share of ₹ 50 each and one equity share of ₹ 25 each issued against 10% Preference Share of ₹ 75 each. Total Pref. Shares = 15,000)	11,25,000	 7,50,000 3,75,000
4.	Capital Reduction A/c Dr. To Preference Share dividend payable A/c (Being arrear of Preference share dividend payable for one year)	1,50,000	 1,50,000
5.	Preference share dividend payable A/c Dr. To Equity Share Capital A/c (Being Equity Shares of ₹ Each issued for arrears of preference Share dividend)	1,50,000	 1,50,000
6.	7% Debentures A/c Dr. To Debentures Holders A/c (Being balance of 7% Debentures transferred to Debentures holders A/c)	5,00,000	 5,00,000
7.	Debentures holders A/c Dr. To 13% Preference Share Capital A/c To Bank A/c To Capital Reduction A/c (Being 50% of Debentures holders opted to take 13% Preference shares at par and remaining took 90% cash payment for their claims)	5,00,000	 2,50,000 2,50,000 25,000
8.	Loan From Director A/c Dr.	1,50,000	

	To Provision for Contingent Liability A/c (Being provision for contingent liability of ₹ 1,50,000 as it payable and the same is adjusted against Loan from director A/c)		1,50,000
9.	Bank A/c Dr. To Equity Share Application & Allotment A/c (Being application money received on 40,000 Equity Shares @ ₹ 25 each)	10,00,000	10,00,000
10.	Equity Share Application & Allotment A/c Dr. To Equity Share Capital A/c (Being application money transferred to capital A/c, on allotment)	10,00,000	10,00,000
11.	Underwriting Commission A/c Dr. To Bank A/c (Being underwriting commission paid)	40,000	40,000
12.	Land & Buildings A/c Dr. To Capital Reduction A/c Dr. (Being value of Land & Buildings appreciated)	3,00,000	3,00,000
13.	Expenses on Reconstruction A/c Dr. To Bank A/c (Being payment of expenses on reconstruction)	15,000	15,000
14.	Capital Reduction A/c To Goodwill A/c To Plant & Machinery A/c To Inventory A/c To Trade receivables A/c To Profit s Loss A/c To Expenses on Reconstruction A/c To Underwriting Commission A/c To Capital Reserve A/c (bal fig) (Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c)	31,75,000	 3,50,000 4,00,000 1,00,000 1,50,000 19,50,000 15,000 40,000 1,70,000

Note: Capital Reduction Account is inter changeable with Internal Reconstruction Account or Reconstruction Account. Any Account form may be used in answering the question.

Ans.5(a) **Departmental Trading Account in the books of Krishna ltd. for the year ended 31st March 2016**

Particulars	Department X ₹	Department Y ₹	Particulars	Department X ₹	Department Y ₹
To Opening stock	80,000	48,000	By Sales	5,60,000	4,48,000
To Purchases	3,68,000	2,72,000	By Transfers:		
To Carriage inward	8,000	8,000	Purchased goods	32,000	40,000
To Wages	48,000	32,000	Finished goods	1,20,000	1,12,000
To Transfers:			By Closing stock:		
Purchased goods	40,000	32,000	Purchased goods	18,000	24,000
Finished goods	1,12,000	1,20,000	Finished goods	96,000	56,000
To Gross profit c/d	170000	168000			
	8,26,000	**6,80,000**		**8,26,000**	**6,80,000**

Profit and loss A/c
for the year ended 31st March 2016

Particulars	₹	Particulars	₹
To Provision for unrealized profit included in closing stock		**By Gross profit b/d** Department X	 1,70,000

Department X (W.N. 3)	7,200	Department Y	1,68,000
Department Y (W.N. 3)	3,500		
To Net profit	3,27,300		
	3,38,000		**3,38,000**

Working Notes:

1. **Calculation of rates of gross profit margin on sales**

Particulars	Department X ₹	Department Y ₹
Sales	5,60,000	4,48,000
Add: Transfer of finished goods	1,60,000	1,40,000
	7,20,000	5,88,000
Less: Return of finished goods	(40,000)	(28,000)
	6,80,000	5,60,000
Gross Profit	1,70,000	1,68,000
Gross profit margin = $\frac{1,70,000}{6,80,000} \times 100 = 25\%$		$\frac{1,68,000}{5,60,000} \times 100 = 30\%$

2. **Finished goods from other department included in the closing stock**

Particulars	Department X ₹	Department Y ₹
Stock of finished goods	96,000	56,000
Stock related to other department (25% of finished goods)	24,000	14,000

3. **Unrealized profit included in the closing stock**
   Department X = 30% of ₹ 24,000 = ₹ 7,200
   Department Y = 25% of ₹ 14,000 = ₹ 3,500

(b) **Trading and Profit and loss A/c**
For the year ended 31st March 2016

Particulars	Head Office ₹	Branch ₹	Particulars	Head Office ₹	Branch ₹
To Opening stock	2,25,000	-	By Sales	27,81,000	9,50,000
To Purchases	25,50,000	-	By Goods sent to Branch	9,54,000	
To Goods received from head office	-	9,54,000	By Closing stock (W.N.1 & 2)	7,00,000	99,000
To Gross profit c/d	16,60,000	95,000			
	44,35,000	10,49,000		44,35,000	10,49,000
To office expenses	90,000	8,500	By Gross profit b/d	16,60,000	95,000
To selling expenses	72,000	6,300			
To staff salaries	65,000	12,000			
To Branch stock Reserve (W.N.3)	44,000	-			
To Net Profit	13,89,000	68,200			
	16,60,000	**95,000**		**16,60,000**	**95,000**

Working Notes:

1. Calculation of closing stock of head office:	₹
Opening Stock of head office	2,25,000

Goods purchased by head office	25,50,000
	27,75,000
Less: Cost of goods sold [37,35,000 × 100/180]	(20,75,000)
	7,00,000
2. Calculation of closing stock of branch:	₹
Goods received from head office [At invoice value]	9,54,000
Less: Invoice value of goods sold [9,50,000 × 180/200]	(8,55,000)
	99,000
3. **Calculation of unrealized profit in branch stock:**	
Branch stock ₹ 99,000	
Profit included 80% of cost	-
Hence, unrealized profit would be = ₹ 99,000 × 80/180 =	₹ 44,000

Ans.6 (a)

	₹ in crores	₹ in crores
Capital Funds - Tier I		500
Equity share capital		270
Statutory reserve		62
Capital reserve (arising out of sale of assets) (78-16)		832
Capital Funds – Tier II		
Capital reserve. (arising out of revaluation of assets)	16	
Less: Discount to the extent of 55%	(8.8)	7.2
		839.2

		₹ In crores	% of weight	₹ n crores
	Risk Adjusted Assets			
	Funded Risk assets			
	Cash balance with RBI	10	0	0
	Balance with other banks	18	20	3.60
	Other investments	36	102.5	36.90
	Loans and advances:			
	(i) Guaranteed by the government	16.5	0	0
	(ii) Others	5,675	100	5,675
	Premises, furniture and fixtures	78	100	78
				5,793.50
		₹ In crores	**Credit conversion factor**	
	Off-Balance Sheet items:			
	Guarantees and other obligations	800	100	800
	Acceptances, endorsements and letters of credit	4,800	100	4,800
				11,393,50

Risk Weighted Assets Ratio:

$$\frac{Capital\ Fund \times 100}{Risk\ adjusted\ assets}$$

(839.2/11,393.50) × 100 = 7.37%

At present, capital adequacy ratio as per RBI norms is 9%. Therefore, Bank has to improve the ratio by introducing further Tier I capital.

Note: As per RBI Master Guidelines dated 1st July 2013, Revaluation Reserves have been advised to be discounted by 55%.

(b) **In the books of Vridhi Insurance Co. ltd.**
Journal Entries

Date	Particulars	(₹ in crores) Dr.	Cr.
1.1.2016	Unexpired Risk Reserve (Fire) A/c Dr.	20.00	
	Unexpired Risk Reserve (Marine) A/c Dr.	15.00	
	Unexpired Risk Reserve (Miscellaneous) A/c Dr.	5.00	
	To Fire Revenue Account		20.00
	To Marine Revenue Account		15.00
	To Miscellaneous Revenue Account		5.00
	(Being unexpired risk reserve brought forward from last year)		
31.12.2016	Marine Revenue Dr.	18.30	
	To Unexpired Risk Reserve A/c		18.30
	(Being closing reserve for unexpired created at 100% of net premium amounting to ₹ 18.3 crores i.e.18+7- 6.70)		
	Fire Revenue A/c Dr.	21.85	
	To Unexpired Risk Reserve		21.85
	(Being closing reserve for unexpired created at 50% of net premium income of ₹ 43.7 crores i.e.43 + 5 - 4.30)		
	Miscellaneous Revenue A/c Dr.	4.50	
	To Unexpired Risk Reserve		4.50
	(Being closing reserve for unexpired created at 50% net premium income of crores i.e. 12+4-7)		

Unexpired Risk Reserve Account

Date	Particulars	Marine ₹	Fire ₹	Misc. ₹	Date	Particulars	Marine ₹	Fire ₹	Misc. ₹
1.1.16	To Revenue A/c	15.00	20.00	5.00	1.1.16	By Balance b/d	15.00	20.00	5.00
31.12.16	To Balance c/d	18.30	21.85	4.50	31.12.16	By Revenue A/c	18.30	21.85	4.50
		33.30	**41.85**	**9.50**			**33.30**	**41.85**	**9.50**

Ans. 7

(a) Goods are marked on invoice price to achieve the following objectives:

(i) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and

(ii) To have effective control on stock i.e stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.

(iii) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

(b) Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

When the construction of a qualifying-asset-is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

(c) **Journal entry in the books of lessee**

	₹	₹
Asset A/c To Lessor (Being recognition of finance lease as an asset and a liability)	1,49,888	 1,49,888

Working Note:

Year	Lease Payments ₹	Discounting Factor (12.6%)	Present Value ₹
1	40,000	0.89	35,600
2	40,000	0.79	31,600
3	40,000	0.70	28,000
4	40,000	0.622	24,880
5	40,000	0.552	22,080
5	14,000(GRV)	0.552	7,728
			1,49,888

(d)

		₹ in crores
Profit after depreciation but before VRS Payment		75.00
Less: Depreciation - No. adjustment required	-	
VRS payments	32.10	
Provision for taxation	10.00	
Fringe benefit tax	5.00	(47.10)
Net Profit		27.90
No. of shares		9.30 crores

(e) According to paras 41 and 43 of AS 26, "No intangible asset arising from research (or from the research phase of an internal project) should be recognized in the research phase. Expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred.

Examples of research costs are:

- Costs of activities aimed at obtaining. new knowledge;
- Costs of the search for, evaluation and final selection of, applications of research findings or other knowledge;
- Costs of the search for alternatives for materials, devices, products, processes, systems or services; and
- Costs of the activities involved in formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes systems or services.

According to paras 45 and 46 of AS 26, "In the development phase of a project, an enterprise can, in some instances, identify an intangible asset and demonstrate that future economic benefits from the asset are probable. This is because the development phase of a project is further advanced than the research phase.

Examples of development activities/costs are:

- Costs of the design, construction and testing of pre-production or pre-use prototypes and models;
- Costs of the design of tools, jigs, moulds and dies involving new technology;
- Costs of the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and

- Costs of the design, construction and testing of a. chosen alternative for new or improved materials, devices, products, processes, systems or services.